



NEW SOLUTIONS *for a* New Economic Environment

THE ECONOMY CHAPTER • REGIONAL COMPREHENSIVE PLAN & GUIDE



SOUTHERN CALIFORNIA
ASSOCIATION of GOVERNMENTS

Background

This document was prepared as part of a contract from the Southern California Association of Governments. This project was initiated in 1998 to update and rewrite the original version of the Economy Chapter of the Regional Comprehensive Plan and Guide.

A REPORT PREPARED FOR:



**SOUTHERN CALIFORNIA
ASSOCIATION OF GOVERNMENTS**

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The Southern California Association of Governments (SCAG) is a regional planning agency and a Council of Governments comprised of 184 cities in six counties.

Over the past three decades, the Southern California Association of Governments has evolved as the largest of nearly 700 councils of government in the United States, functioning as the Metropolitan Planning Organization for six counties: Los Angeles, Orange, San Bernardino,

Riverside, Ventura and Imperial. The region encompasses a population exceeding 16 million persons in an area of more than 38,000 square miles.

As the designated Metropolitan Planning Organization, the Association of Governments is mandated by the federal government to research and draw up plans for transportation, growth management, hazardous waste management, and air quality. Additional mandates exist at the state level.

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The Institute is an independent, non-profit, non-partisan think-tank focused on economic development, the changing nature of work, innovations in technology, and high performance communities. The purpose of the La Jolla Institute is to:

- Advance and supply business, civic, government and educational leaders with strategic, New Economy, New Ways of Working information and insight.
- Define and enlarge the conversation about the role of the New Economy and the Workplace of the Future with clear analysis, information and real-life examples.
- Establish an "Information Age" context and specific framework and vision to private and public sector leadership through studies, briefings, conferences and commentaries.

Table of Contents

PREFACE

A INTRODUCTION 1

B REGIONAL ECONOMIC GOALS 5

- 1. PROSPERITY: Real Income Growth 7
- 2. EQUITY: Ensuring Economic Gains Are Broadly Shared 8

C MAPPING THE REGION'S ECONOMY 9

- 1. THE ECONOMIC BASE 11
 - a. The Region's Changing Economic Base 12
 - b. The Shrinking Role of Defense 13
 - c. A Growing Role for International Trade 13
 - d. Tourism: Major Job Generator 15
 - e. Motion Picture and Television Industry 17
 - f. Diversified Manufacturing: A Traditional Regional Strength 18
 - g. Professional Services: One of the Region's Biggest Employers 19
 - h. High Technology: Jobs for the Future 20
 - i. Agriculture: Ranked Among Leading Regions Nationwide 21
- 2. THE 1990-1993 RECESSION AND THE FOUNDATION FOR RECOVERY 22
- 3. REGIONAL TRANSITIONS 24

- 4. THE ISSUE OF ECONOMIC COMPETITIVENESS 27
 - a. Work Force Competitiveness 27
 - b. Efficient Infrastructure 28
 - c. Quality of Life 28
 - d. The Business Climate 29
 - e. Business Leadership 30

D LONG TERM ECONOMIC FORECAST FOR THE SCAG REGION 31

E STRATEGIES FOR ECONOMIC PROSPERITY AND EQUITY 37

- 1. INTRODUCTION: THE NEED FOR A REGIONAL FOCUS 39
 - a. Advantage of Regional Clusters 39
 - b. Enhanced Business Formation 40
 - c. Integration Across Clusters: Flexible Specialization 40
 - d. Access to a Qualified Workforce 41
- 2. STRATEGIES TO EXPAND AND DIVERSIFY THE REGION'S ECONOMIC BASE 41
- 3. KEY ISSUES AFFECTING REGIONAL COMPETITIVENESS 50
- 4. STRATEGIES FOR INVESTMENT IN "COMMUNITIES-IN-NEED" 56

Preface

The Economy chapter of the Regional Comprehensive Plan and Guide (RCPG) was adopted by the SCAG Regional Council in June 1994. The RCPG examines the future of the region during the next 20 years. Previous regional plans have focused principally on transportation, housing, growth management, and air quality issues, without specifying their impacts on the economy. By contrast, this plan starts with the premise that a healthy regional economy is a prerequisite for successful implementation of policies in these other areas.

Additionally, in the past, components of the regional plans were developed in a fairly traditional public policy process within SCAG and its family of local government constituencies. The 1994 chapter on The Economy was developed using a completely different approach with early and broad involvement of business and community groups. As a result, The Economy chapter was an accumulation of these efforts together with those of SCAG.

Since the adoption of The Economy chapter, the SCAG regional economy has undergone a significant transformation and rebound. Current employment levels have surpassed the pre-recession mark; unemployment levels have dropped precipitously; income and spending levels are up and real estate prices are surging. In addition to the changes in the economic landscape, the region's regulatory and organizational infrastructure environment has undergone changes as well. To capture these evolving developments, The Economy chapter has been revised to reflect the current status of the region.

The Economy Chapter is a non-mandated element of the Regional Comprehensive Plan and Guide; it is provided for information and advisory purposes. The recommendations contained in this chapter to fulfill the stated goals and objectives do not create new legal mandates for local governments or other regional organizations.

INTRODUCTION



After a difficult and prolonged recession, Southern California's economy has made a remarkable recovery. Despite a wave of disasters, both natural and manmade, and massive cuts in federal military spending, the region has added more than 800,000 jobs since the recession low point in early 1994 (Figure 1). Record levels of foreign trade and motion picture production, a pronounced recovery in tourism, and strong employment gains in apparel manufacturing, software and professional services have all played a critical role in leading the region out of recession. This is a significant economic turnaround in a formidable regional economy.

With an estimated gross regional product of nearly \$500 billion, the region's economy is the 12th largest in the world—smaller than that of South Korea but considerably larger than that of the Netherlands. From 1970 to 1998, the region's population increased by more than 6 million, an amount equivalent to adding a state the size of Massachusetts to SCAG's six counties. Between 1972 and 1998 a remarkable 3 million jobs were created in the region, and personal income region-wide rose from just over \$4,800 per capita in 1970 to \$26,400 twenty-eight years later. This is an impressive economic record, certainly among

the best, in terms of the sheer magnitude of change, of any region in the world.

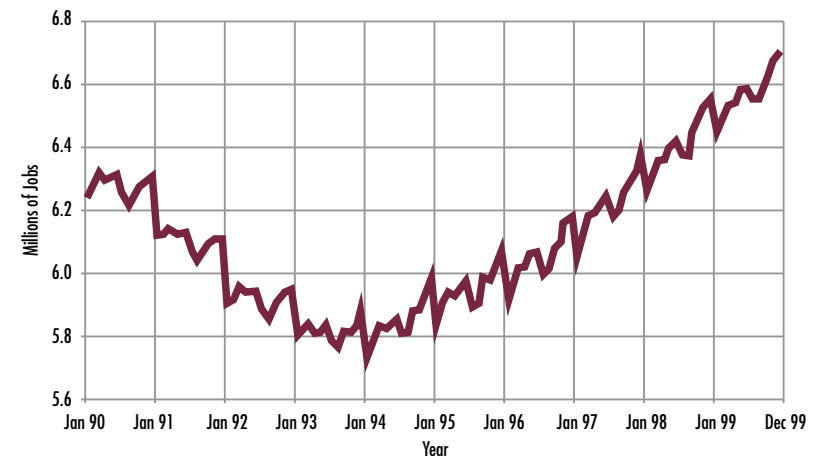
Yet, the recent economic recovery represents a historical break from the past. Unlike the post-Depression era or any subsequent recoveries, the region's current upturn has come without a large boost in defense spending, nor has it come from a robust real estate, insurance, or financial service sector. In fact, defense and financial industry cuts and job losses continued to mount throughout much of the recovery. Unique in this economic turnaround are the significant employment gains in small and medium sized companies, as well as in emerging industry sectors such as apparel, toys, multimedia, entertainment, biomedical, professional services and international trade. Whereas the economy of the past was defined and dominated by large companies, the region now boasts the most numerous collection of smaller, fast growing companies in the nation.

From a structural point of view, this increasingly diverse economy is far healthier than its predecessors. Less sensitive to future economic disruptions in any single industry, the SCAG regional economy now boasts an amazing critical mass of diverse industry sectors. Although the recovery has been broad-based and widespread, in a region as large and complex as Southern California, not all industries and

subregions have fared equally. For example, by the end of 1998 five of the SCAG region's six counties had recovered all of the jobs lost in the 1990-93 recession. The exception was Los Angeles County, which bore four out of every five job losses in the region during the recession. At the beginning of this year the County was still some 113,000 jobs short of recovering all of the 500,000 jobs it lost between 1990 and 1993.

Figure 1

Southern California Nonfarm Wage & Salary Jobs



Source: EDD, SCAG employment database.

This chapter is an assessment of the SCAG regional economy. What are its strengths and weaknesses? Where do future opportunities lie? What needs to be done to enhance the region's competitiveness in the national and world economy?

Since the recession, a different type of economy has taken hold of the SCAG region. Various descriptions and definitions are used to characterize the structural economic changes impacting the Southern California, U.S. and world economies. Often referred to as the new economy, this term encompasses businesses and organizations that look, think and operate very differently from traditional businesses of the past. Consistent with the new economy, competitive businesses now must rely upon: business networks and organizational flexibility, product and service customization, global market strategies and international connections, as well as a heightened reliance upon technology. As a new economy epicenter, Southern California reflects a variety of these elements:

- The Los Angeles Customs District handled \$185.9 billion in trade volume in 1997. Since 1987, the district's trade volume has increased 240%, despite the region's economic troubles in the early part of the decade.
- The Los Angeles area ranked first nationally in the percent of jobs tied to companies with less than one hundred employees and with under \$5 million in sales.¹

- The SCAG region ranked first nationally in number of minority and women owned businesses.
- The region's technical workforce totals more than 769,000 workers, including 138,539 engineers and 76,317 natural scientists.²
- Fifty-four percent of California's 35,170 technology-based firms are located in the five-county region of Southern California.
- Since 1989, Southern California has added more companies to the Inc. 500 list of fastest-growing privately held companies than any other region in the country.

A new economy forces a new set of public and private sector assumptions and priorities. Contrary to the belief that economic activity naturally follows perpetual social investment, a new economic model must be developed that positions both business and government to be profitable and competitive regionally, nationally and internationally. Within this new economic paradigm growth and wealth creation will be measured less in terms of natural resources than in terms of human resources, the skill levels of regional workers, and the pipeline of future workers. For this reason, public and private sector organizations and regions must think strategically as they develop

plans for their future. The foundation for such a model is to identify and capitalize on competitive advantages found within Southern California's business, government and educational institutions and create a complementary organizational infrastructure. More than ever, regions are forced to find new and creative ways to meet the challenges before them.

¹ David Birch, Anne Haggerty, William Parsons, Corporate Almanac 1993, Cognetics, Cambridge, MA, 1996, pp. 4,51

² "Southland Technology Leader," Published by Corp Tech for the Los Angeles Regional Technology Alliance, 1995, p.6.

A black and white photograph of a stack of coins and a banknote. The coins are stacked on top of each other, with the top coin being a quarter. The banknote is partially visible underneath the coins, showing the words "FEDERAL RESERVE NOTE" and "THIS NOTE IS LEGAL TENDER FOR ALL DEBTS, PUBLIC AND PRIVATE". The background is a textured surface.

REGIONAL

ECONOMIC GOALS

*I*n view of the region's economic history and its current circumstances, what are the appropriate goals at which policy makers should be aiming? A multitude of economic targets can be envisioned, but most, on closer inspection, will turn out to be intermediate in nature. The fundamental economic goal of regional planning must be to improve the welfare or standard of living of those who work and reside there. Unfortunately, standard of living is a subjective concept; planning requires objective criteria. The statistical measure that comes closest is real personal income. Aims such as increasing the number of jobs or maintaining the competitiveness of regional industries, which are discussed later in this chapter, are really intermediate objectives to be met in order to grow personal incomes in the region. Hand in hand with income growth must be the broad goal of *equity*: ensuring that the maximum possible number participate in growth of prosperity.

1. Prosperity: Real Income Growth

Real personal income (personal income adjusted for inflation) is the broadest single statistical measure of well-being or standard of living. As such, growth of real income is more important as a regional economic target than growth of jobs alone. To provide a meaningful measure of progress in achieving prosperity, we need a unit by which the dollar value of total personal income in the region can be divided. Here there are several choices: standard measures include real personal income per household, per family, per capita, and per worker.

For purposes of a regional economic strategy, neither income per family nor income per household seem appropriate. Household formation and family size are both influenced by many variables that are not directly related to the state of the regional economy: culture, religion, and ethnicity to name a few.

Real personal income per capita is probably the least biased of measures, but it suffers from the drawback that rapid growth in the population (including that caused by immigration) at certain times may cause distortions. Expressing the total on a per-employee basis would not take account of the effect of

changes in unemployment. However, if we were to use the number of members of the labor force (both employed and unemployed) as the denominator, this distortion would be eliminated.

Income targets for 2020 should be phrased in terms of desired growth rates of real income, with both a minimum and a moderate goal. For example, expressed in per capita terms, the minimum acceptable growth rate could be zero; i.e., Minimum = no further decline. This would mean that personal income in the region would have to grow each year at least as fast as the rate of inflation plus the rate of population growth. In 1998, for example, personal income would have had to grow by roughly 3 percent to meet this target (population growth: 1.53% + an inflation rate of 1.44%).

The "moderate" income growth target could be to match the performance of the last intercensal period, that is, Moderate = per capita real income growth per annum at its average rate during the 1980s. This would mean, for the region as a whole, an annual compound increase on the order of 0.7 percent.

2. Equity:

Ensuring Economic Gains are Broadly Shared

It is not enough that the region experience growth in average real income. The second goal of this chapter is that the region's gains in economic prosperity are shared broadly by residents throughout the region. Both this goal and the previous one are "grass roots" in the sense that they were agreed upon by business, government, labor, academic and community group representatives in SCAG's continuing work on the Economic Chapter.

Southern California is probably the most diverse region of its size in the world. The region's population includes residents of very different cultural backgrounds, educational attainment levels, work experience, skills and income. Our diversity is so great that regional prosperity cannot be achieved unless all major groups participate.

Note that a goal of broadly shared prosperity does not imply a strategy of *redistributing* today's income. Strategies to ensure that future economic gains are broadly distributed are based, by contrast, on expanding opportunity and the commitment of business and government leaders to recognize that individuals and communities left behind today must be made full partners in the growth of tomorrow's economy.



MAPPING THE

REGION'S ECONOMY

1. The Economic Base

The rate of job growth in the SCAG economy is primarily determined by growth in the region's economic base. Basic industries—the industries included in the region's economic base—make a substantial share of their sales to customers outside of the region. That is, they export goods and services to customers elsewhere in California, throughout the nation, and throughout the world. Selling outside the boundaries of the region is what brings new income in.

To be sure we are clear on terms, note that the word “industry” is used here in a generic sense, to denote any type of productive activity. That is, “services” provided by a business qualify as industries under this definition. Examples would be the banking industry, health care industry, etc. However, not all services industries are “basic” in the sense of exportable (able to be sold outside the region). Finally, note that exportable does not necessarily mean consumed outside the region. Tourists consume our goods and services within the region, but the tourism industry is nevertheless “basic” because the money tourists spend comes from outside the area.

Aircraft, apparel, motion pictures, computer services, fabricated metals, and amusements are all key industries in the region's economic base. Other parts of the economic base include the rest of manufacturing, air transportation, parts of the wholesale trade, hotel, and business services industries, as well as part of the services provided by the region's hospitals and universities, which serve people from outside the region.

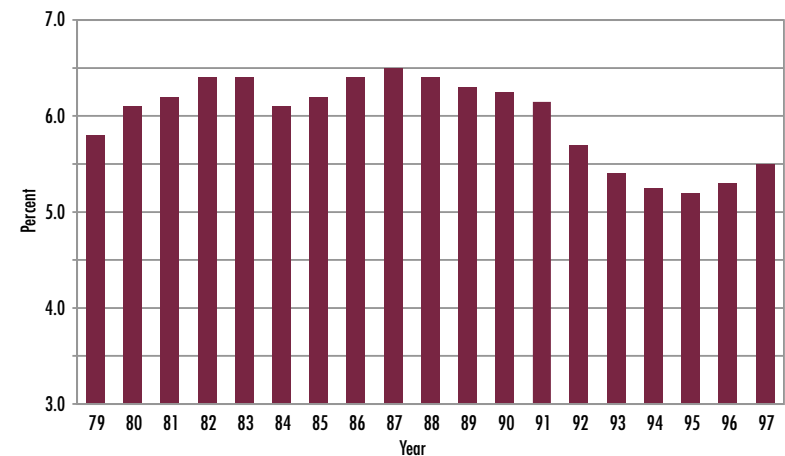
Manufacturing activities have been and will continue to be an important part of the SCAG region economic base. Manufacturing activities create both direct production jobs and jobs in many related industries. And, starting in 1996, for the first time since 1987 the region's manufacturing employment level increased as a percentage of the U.S. total (Figure 2).

This is particularly impressive given both the recent regional recession as well as the national trend, which saw nearly 21 million jobs created from 1986 to 1996, while during that same period the number of manufacturing jobs fell by almost one million. At the national level, although there are no manufacturing industries on the leading job growth list, manufacturing leads all other sectors in projected gains in production.

Although Southern California is the largest manufacturing region in the country, manufacturing is not the only base sector with future opportunities. Non-manufacturing activities, like tourism, entertainment, and professional services, have become a significant component of the SCAG region economic base. As shown below, most of the job growth in the region's economic base has and will continue to occur outside of manufacturing.

Figure 2

SCAG Region Share of U.S. Diversified Manufacturing



Source: CCSCE

To reiterate, the SCAG region's economic base is the appropriate focus for developing economic strategies:

- Exportable goods and services are subject to intense competition. A regional competitiveness strategy means being competitive in basic industries. Growth in jobs and sales in the region depends on how well the region's firms and workers compete—often with locations throughout the world. People involved in basic industries—whether in manufacturing apparel, filming a motion picture, or deciding where to vacation—have a choice.
- Growth in the economic base will determine the opportunities for job growth and increases in income in the rest of the economy. Prospects for employment growth in supporting activities like retail trade, medical services, construction, and local education depend on employment expansion in basic industries. Regions with the fastest growing economic bases have the highest rates of overall employment growth.

a. The Region's Changing Economic Base

The number of jobs in the SCAG region's economic base expanded by more than 50 percent between 1972 and 1998, and most of the new jobs were created in the region's service sectors—not in the production of goods. As shown in Figure 3, from 1994 to 1998, Tourism and Entertainment represented the fastest-growing regional sector; moreover, during the same period diversified manufacturing,

transportation and wholesale trade added nearly 160,000 new jobs. All of these sectors benefited from increases in foreign as well as domestic purchases.

Of the two additional large manufacturing groups shown in the table, high technology manufacturing experienced modest growth, while defense related employment continued to decrease, albeit at a slower rate.

Figure 3

SCAG Region Jobs By Major Industry Group (Thousands of Jobs)

	1990	1994	1998	Numerical Change 1990-94	Numerical Change 1994-98	Percent Change 1994-98
Professional Services	570.7	497.7	526.6	-91.0	46.9	9.8%
Diversified Manufacturing	797.3	706.0	796.7	-91.3	90.7	12.8%
Transportation & Wholesale Trade	567.8	519.5	588.4	-48.3	68.9	13.3%
Tourism & Entertainment	254.5	261.1	311.9	6.9	50.5	19.3%
Defense Related	290.2	170.7	155.8	-119.5	-14.9	-8.7%
Resource Based	87.4	80.5	71.7	-6.9	-8.8	-10.9%
High Technology Manufacturing	127.3	100.3	107.7	-27.0	7.4	-7.4%
Total	2,695.2	2,318.1	2,558.80	-377.1	240.7	10.4%

Source: CCSCE, EDD

b. The Shrinking Role of Defense

The defense-related sector of the region's economic base is no longer large in terms of job levels compared with other sectors. In fact, since 1990 industry job levels have declined almost 50 percent, with a loss of nearly 140,000 jobs (Figure 4).

Southern California is no longer the national focal point of manufacturing and assembly of large aerospace platforms such as military and commercial aircraft, expendable rockets and missiles; instead, the region is now competing against a number of states with similar aerospace and defense capabilities. Furthermore, according to a recent study by A.T. Kearney, The Los Angeles Regional Technology Alliance (LARTA) and the Los Angeles Economic Development Corporation (LAEDC), industry consolidation has led many of the industry's corporate headquarters and top-management teams to leave the state, resulting in fewer industry and personal ties to the local community.

Figure 4

Los Angeles Basin Aircraft, Space and Defense (Thousands of Jobs)

	1986	1990	1998e	2005f
Aircraft	143.2	142.5	76.4	78.5
Shipbuilding	5.2	2.8	2.3	2.2
Missiles, Space	30.0	33.0	12.4	9.5
Search & Navigation Equipment	116.3	79.4	45.6	36.0
Federal Civilian Defense	34.9	32.5	19.1	18.0
Total Sector	329.6	290.2	155.8	144.2

Source: CCSCE, EDD e=CCSCE estimate

f= CCSCE forecast

Although the aerospace and defense industry has undergone a wrenching transformation, the industry is still a significant regional employer and is now playing an increasingly important role in the rapid convergence of information driven industries. This is most evident in an increase in business ventures that leverage the unique synergies among aerospace and defense, transportation and information technology, telecommunications and entertainment. As the only region in the country, if not the world, that possesses both the high tech industrial base as well as the creative or cultural industrial complex, Southern California is uniquely positioned to leverage these assets and meet the growing demand for information related products and services.

Additionally, regional aerospace collaboratives have recently sought to work together to address critical industry issues. The Aerospace Alliance of the Antelope Valley was created as an industry group of all three major aerospace primes (Boeing, Lockheed Martin, and Northrop Grumman), Edwards AFB, and Tracor. Working jointly on projects, they share equipment, space, and staff to reduce costs and keep their costs competitive.

c. A Growing Role for International Trade

Foreign trade has emerged as a major sector in the region's economic base. The volume of merchandise trade through the Los Angeles Customs District (LACD) has grown from \$6.2 billion in 1972 to \$185.9 billion in 1997. From 1987 to 1997, total trade, imports and exports combined, increased by an average of 14 percent per year compared to a 13.6 percent annual rate for the nation.



The impact of international trade on the region is even larger than these statistics suggest. Trade in services, which is not included in the Customs District data, is growing even faster than trade in goods. For every \$3 in goods trade, there is now an additional \$1 worth of trade in services such as banking, insurance, and tourism.

A precise count of jobs associated with foreign trade is not available, but they are numerous

Figure 5

Regional Employment Supported by Exports to:

Country	Regional Employment
Japan	142,472
Canada	58,937
South Korea	54,754
Mexico	52,720
Taiwan	47,874
United Kingdom	46,308
Germany	37,895
Singapore	32,390
Hong Kong	27,469
Malaysia	23,384

Source: CSULB, 1998

and spread throughout most sectors of the regional economy (Figure 5). The rule of thumb used by the U.S. Department of Commerce is that for every additional \$1 billion of U.S. exports, 19,000 jobs are created. International trade creates jobs in three major ways:

- *Through the manufacture of goods in the region*—Leading exports from the region in 1997 included Transportation Equipment (\$8.9 billion), Electric and Electronic Equipment (\$5.7 billion), Industrial Machinery and Computers, (\$5.6 billion), Scientific and Measurement Instruments (\$2.6 billion), Chemical Products (\$1.8 billion) and Food Products (\$1.7 billion).
- *Through goods delivery*—The \$185.9 billion in trade in 1997 supported thousands of jobs in the trucking, wholesale trade, railroad, shipping, and air cargo industries.
- *Through trade in services*—Air travel and accommodations for tourist and business travelers is the largest area of trade in services. However, many other areas are taking off. Rapidly-growing markets include software and entertainment products (video, music), professional services, and education and health (foreign visitors

using the region's universities and medical centers).

The value of exports rose from \$23.7 billion in 1987 to \$74.9 billion in 1997—a 212 percent increase (Figure 6). Other things equal, export growth depends more on changes in real economic activity abroad than it does on real growth in the region. For example, the slowdown in export growth through LACD in the 1990-92 period reflected weakening GDP growth in Japan, other Asian economies and Europe as well.

Los Angeles County is the second largest goods export production center in California. With more than \$25.8 billion in 1997 exports, the county ranked fifth nationally behind San Jose, New York, Seattle, and Detroit. Orange County ranks fourth among California metro areas, while Riverside/San Bernardino and Ventura recorded the highest regional growth rates between 1993 and 1997 (Figure 7).

As shown in Figure 8, the bulk of the region's exports go to Asian countries. In 1997, for example, Japan bought \$7.7 billion from the region while other Asian countries accounted for an additional \$10.3 billion in exports. Europe was the next largest export market (\$7.7 billion) followed by Mexico (\$4.3 billion) and Canada (\$3.8 billion).

Figure 6

Southern California Foreign Trade Value of Exports and Imports (1987-1997) (\$ Billions)

	Exports	Imports	Total
1987	\$23.7	\$53.9	\$77.6
1990	\$42.1	\$64.6	\$106.7
1997	\$74.9	\$111.8	\$185.8

Average Annual Growth Rate 1987-1997

Los Angeles	21.2%	10.7%	13.9%
California	23.1%	13.6%	16.8%
United States	17.2%	11.4%	13.6%

Source: U.S. Department of Commerce

The pattern of export and import growth through the Los Angeles Customs District over the past decade reflects trends in merchandise trade throughout the country. In fact, the LACD has steadily increased or held its share of U.S. trade—on both the export and the import side of the ledger—since the early 1970s.

International trade will remain a key component of the region's changing economic base. Methods to enhance the region's competitiveness as a center for international trade and investment are a significant component of the regional economic strategy. In addition, the region is a major center for deal making. Foreign trade requires financial, legal and other professional services. The SCAG region has developed into a major international business and financial center during the past two decades.

d. Tourism: Major Job Generator

Tourism is one of the most important growth sectors in the region's economic base. On the rise steadily since the recession, tourism industry growth has been fueled by gains in disposable income throughout the Pacific Rim and the region's world class attractions such as Disneyland and Universal Studios.

From the employment highs of 1990, tourism has been making steady gains. Amusement industry jobs have increased by 7,900 since 1990 to reach a level of 93,500 in 1998, and, although hotel employment is still 8,400 below 1990 levels, recent occupancy levels and room rates are at their highest since 1990. Tourism creates employment in other sectors as well, such as restaurants, retail stores, car rental agencies and air travel.

Figure 7

Exports Produced in the SCAG Region (\$ Millions)

Metro Area	1993	1997	% Change
Los Angeles	20,014	25,816	29.0%
Orange	5,653	8,798	55.6%
Riverside/San Bernardino	1,094	2,068	89.1%
Ventura	640	1,129	76.3%
Total	27,401	37,812	38.0%

Source: International Trade Administration

Figure 8

Exports Produced in the Region 1997 (\$ Millions)

Destinations	Los Angeles	Orange	Riverside/ San Bern.	Ventura	Region Total
NAFTA Countries	4,950	2,442	496	211	8,099
Mexico	2,831	1,024	261	172	4,288
Canada	2,118	1,418	235	39	3,810
Japan	5,907	1,393	295	142	7,737
Other Asian Countries	7,302	2,314	407	321	10,344
Europe	4,682	2,013	662	308	7,665
All Other Countries	2,976	637	208	147	3,968

Source: International Trade Administration, Exporter Location Series.

Over the last ten years, travel and tourism has evolved from an emerging sector to an established leader in a modern services economy. Growing nationally from a \$26 billion industry in 1986 to a \$90 billion one a decade later, travel and tourism's export contributions to the U.S. economy have grown nearly 250%. In that time, travel and tourism has taken its place as the number one services export, producing a trade surplus every year since 1989.

Unfortunately, quite often, international visitation to the United States is not thought of as an export. Nothing could be further from the truth. With just under \$21 billion in inbound passenger fare receipts in 1997, visitor trip expenditures injected almost \$70 billion directly into the U.S. economy. Each international visitor to the United States represents an

average export value of \$1,500, with 28 percent of their expenditures going to lodging, 18 percent to food service, 10 percent to entertainment, 30 percent to retail trade and 13 percent to local transportation. In 1997, a record 46.5 million international visitors made America their destination of choice, up seven percent over 1996.

Figure 9

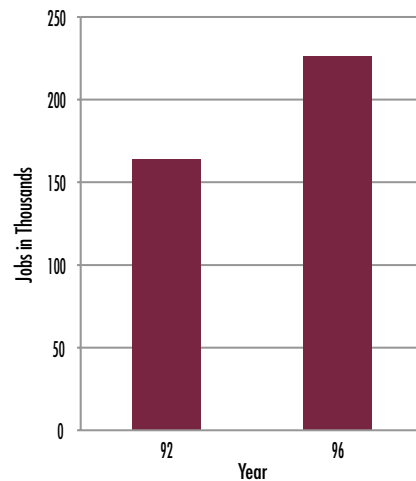
Overseas Visitors to Selected U.S. Regions, 1997

City/Region	1997 Market Share	1997 Visitation (000)
New York	20.7%	5,008
SCAG Region	19.8%	4,791
Miami	13.7%	3,315
San Francisco	11.8%	2,855
Orlando	11.5%	2,782
Oahu/Honolulu	10.2%	2,468
Las Vegas	8.7%	2,105
Metro DC	5.9%	1,427
Boston	4.7%	1,137
Chicago	4.5%	1,089
San Diego	3.4%	823

Source: Tourism Industries, International Trade Administration, May 1998

Figure 10

SCAG Region Motion Picture & Video Production Total Employment



Source: MPAA, 1998

From a SCAG regional perspective, the impact of the tourism industry is enormous. Based on 1997 market share data from the U.S. International Trade Administration (shown in Figure 9), the SCAG region receives nearly \$14 billion dollars in export spending from overseas visitors, an amount that creates an estimated 266,000 jobs.

What these statistics demonstrate is that international travel to the United States is an export just like the sale of our agricultural products,

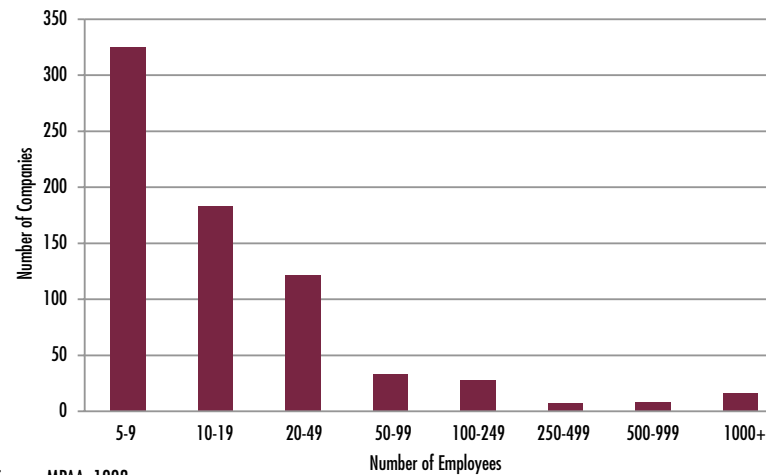
automobiles or consumer goods overseas and that helps boost the nation's GDP. As a result, inbound tourism has an important impact on regional job creation.

e. Motion Picture and Television Industry

For nearly a decade, the motion picture industry has been booming in California. With 95 percent of the industry located in the SCAG region, motion pictures and television have played a critical role in leading the region out of recession. Film starts in California surged in 1996 and have remained at near record levels since 1997.

Figure 11

Size of Motion Picture/Video Production Companies



Source: MPAA, 1998

According to a recent report from the Motion Picture Association of America (MPAA), between 1992 and 1996 entertainment production employment—including motion pictures, commercials and television—grew from 164,000 to 236,000, an enormous 38 percent increase (Figure 10). This pace of growth, over 90 percent of which took place in Southern California, was nearly seven times that of the rest of the state economy, faster even than the expansion of the high-tech sectors in Silicon Valley. Pay also increased at a high rate; production salaries jumped \$8,000 between 1992 and 1996, while average salaries statewide grew by less than \$3,000. Overall revenues jumped from \$16 billion to \$27.5 billion—a 69 percent increase.³

³ "The State of the Industry: The Economic Impact of the Entertainment Industry on California," Motion Picture Association of America, Los Angeles, April 1998, pp. 7-8, 16, 19.

The resurgence of the entertainment industry through the recession and beyond establishes a critical pattern in the region's recovery; it has largely been the product of networks of firms, mostly small, working together within an intense regional collaborative structure (Figure 11). Similar to the Silicon Valley, the Hollywood entertainment complex is uniquely dependent on the close cooperation between large corporations, such as studios, and teams of independent contractors, freelance artists, and craftspeople, in a manner not seen elsewhere. Among the industry's employees, only 80,000 work directly for studios and independent producers; 146,000 labor as freelancers, writers, directors, or craft specialists.

In modern America few industries are as thoroughly dominated by one region as entertainment is by Southern California. The region accounts for roughly 80 percent of prime time television production, 70 percent of commercial production and, despite well-publicized efforts by several other states and Canadian provinces, now accounts for more than 75 percent of all film starts, up from only two-thirds in 1992. The area has far more soundstage space, more production revenue, and more employees than all its competitors put together. By the middle of 1998, new sound stages were under construction in Hollywood, Manhattan Beach, and Santa Clarita, as well as on several of the existing studio lots. Others were being planned for both the Playa Vista area near Marina del Rey and in downtown Los Angeles. In total, it is estimated that as many as 71 new soundstages could be built in the region over the next few years.⁷

⁴ Friedman, *New Economy Project*, draft, *op. cit.*, p. III-6.

⁵ The State of the Industry: The Economic Impact of the Entertainment Industry on California, *op. cit.*, p. 14.

⁶ *Ibid.*, p. 13.

⁷ Frank Swertlow, "Demand Remains High for Modern Production Space," *Los Angeles Business Journal*, January 26, 1998, p. 39.

⁸ "Rebuilding LA's Urban Communities," Final report of RLA, Milken Institute, Santa Monica, 1997, pp. 27-29.

f. Diversified Manufacturing: A Traditional Regional Strength

After dramatic declines in the early 1990s, the region's manufacturing economy has recently begun a sustained recovery. Between 1993 and 1998, more than 64,000 manufacturing jobs were added across the region in a host of industries—apparel, furniture, toys, industrial machinery and biomedical devices. Moreover, there has been a sharp transition in the composition of the region's diversified manufacturing base away from traditional heavy industry sectors towards industries that rely upon unique design elements and craft skills (Figure 12).

Figure 12

SCAG Region Diversified Manufacturing - 1998

Diversified Manufacturing	Jobs (Thousands)	Change Since 1993
Apparel	128.7	20.3%
Furniture	44.4	27.2%
Printing, Publishing	74.2	-7.6%
Chemicals	39.5	3.1%
Rubber & Plastics	55.5	10.1%
Fabr. Metal Products	84.0	10.2%
Non High Tech Machinery	129.1	21.6%

Source: CCSCE

These emerging manufacturing networks, comprised of designers, vendors, suppliers and customers, are typically driven by newer, often times ethnically-owned, entrepreneurial firms that are reliant upon close cooperation between suppliers, designers, and customers.

Some firms are quite small and highly specialized; for example, a 1997 study by Rebuild Los Angeles (RLA) noted in Los Angeles County alone there were 1,100 firms manufacturing ethnic foods, employing 50,000 people. These companies depend heavily on ties to specific communities and relations between various producers, distributors, and wholesalers to be economically viable.⁸

The largest diversified manufacturing industry in the region is apparel and textiles, with 146,500 jobs in 1998. As the second largest apparel-manufacturing center in the country, the region accounts for 80% of the state's apparel and textile industry and has added more than 30,000 jobs in the last four years alone. This growth is particularly impressive given that nationwide, the industry has lost more than 500,000 jobs since 1979.

g. Professional Services: One of the Region's Biggest Employers

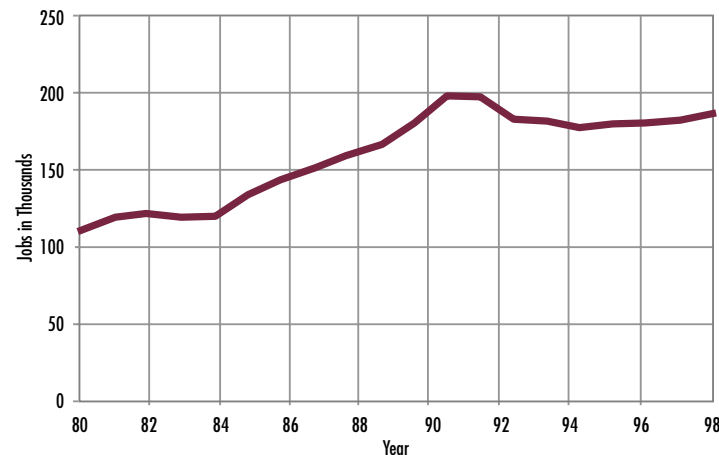
Professional service industries—including job categories such as computer, legal, engineering and management services—have become one of the largest sectors in the region's economic base with more than 526,000 jobs in 1998. Moreover, professional services provide the largest component of potential future job growth in the region's economic base. In 1972, for example, there were two jobs in fabricated metal products for every job in the engineering and management services sector; in 1997 that ratio was reversed. Further, average pay in the engineering and management services industry is high: \$48,700 in 1997 (Figure 13).

The SCAG region serves markets throughout California, the nation, and worldwide in industries such as software, engineering and management services, and portions of the legal services, business services, and higher-education sectors.

The competition for professional service jobs, usually paying high wages, points out the challenge in developing a competitiveness strategy for the region. While mature manufacturing industries often rank labor and other business costs as the dominant location factor, professional service industries more often value a highly educated work force and quality of life considerations such as good schools, efficient transportation, a healthy environment, and world class recreation and entertainment opportunities.

Figure 13

SCAG Region-Engineering & Management Services Employment



Source: CCSCE, 1998

h. High Technology: Jobs for the Future

National and worldwide demand for the products of technology will make sales of technology-based goods and services a leading growth market well into the next century. With the acceleration in technological advances and innovation in computers and the heightened demand for knowledge-based services, the role of high-technology industry development is becoming increasingly important in the overall growth rate of metropolitan regions. Due to a high multiplier effect caused by above average wages, one recent study published by the Wharton Econometric Forecasting Association (WEFA) indicates that the future economic success of regions will be heavily dependent on their ability to attract, nurture, and expand high-technology based industry clusters⁹ (Figures 14 & 15).

Traditional measures of high-technology manufacturing included the computer, electronic components, and instruments sectors. Now, however, growth is also becoming significant in other markets such as environmental technology, bio-tech, and advanced transportation technology. With a rich history and resource base to build from, Southern California's technology industries are uniquely positioned to continue their pattern of leadership and innovation.

Although high tech is not a specific industry sector, normally included within this definition are the following sectors: Software and Information Technologies, Multimedia, Electronics, Medical Devices and Biotechnologies, Telecommunications, Advanced Transportation Technologies, Environmental Technologies.

⁹ Ross C. DeVol, "Metro Growth: How Dependent on High-Tech Success?", Wharton Econometric Forecasting Association, August 1997, p. 1-2.

Figure 14

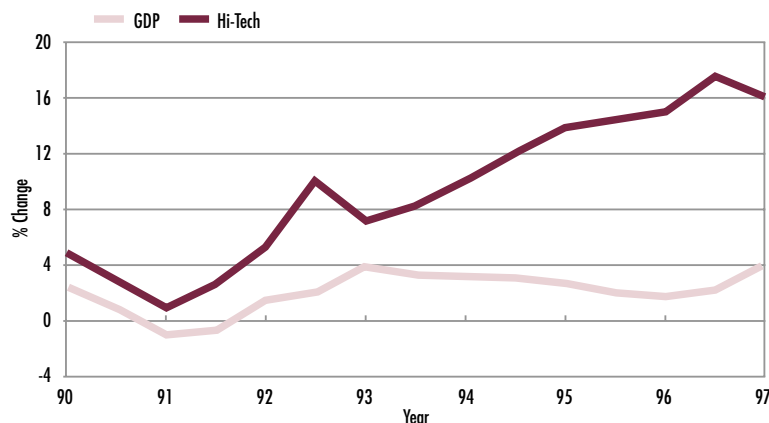
WEFA Top-100 Metros by High-Tech Concentration (Through 1996)

Rank	Metro	High-Tech Jobs (ooo's)
1	Los Angeles-Long Beach, CA PMSA	297.2
2	Washington, DC-MD-VA-WV PMSA	241.9
3	Boston, MA-NH PMSA	240.8
4	San Jose, CA PMSA	236.7
5	Chicago, IL PMSA	214.4
6	Lowell, MA-NH PMSA	148.1
7	Fitchburg-Leominster, MA PMSA	147.4
8	Dallas, TX PMSA	130.2
9	Philadelphia, PA-NJ PMSA	128.4
10	Orange County, CA PMSA	112.5
11	New York, NY PMSA	101.7
12	Minneapolis-St. Paul, MN-WI MSA	101.2
13	Atlanta, GA MSA	97.9
14	Detroit, MI PMSA	86.2
15	Houston, TX PMSA	82.9
16	San Diego, CA MSA	79.2
62	Riverside-San Bernardino, CA PMSA	19.3

Source: Wharton Econometric Forecasting Association, 1997

Figure 15

High-Tech is Accounting for a Rising Share of U.S. Economic Growth



Source: WEFA, 1997

i. Agriculture: Ranked Among Leading Regions Nationwide

Since the SCAG region's industry base is so large and diversified, the contribution and economic importance of resource-based industries, agriculture in particular, to the economies of certain sub-regions is sometimes overlooked. In addition, its enormous contribution to exports is much more significant than its contribution to gross regional product.

According to both the 1992 and the 1997 Census of Agriculture, three SCAG region counties—Riverside, Imperial, and Ventura—were ranked among the top 20 counties nationwide in terms of market value of agri-

cultural products sold (Figure 16). In addition, agriculture provided almost 30 percent of Imperial County's total wage and salary employment in 1998.

Future prospects for SCAG region agricultural exports have been enhanced by several trade agreements reached in 1993, including, in addition to NAFTA and the completion of the Uruguay Round of the GATT, a number of market-opening agreements with certain Asian countries. Export opportunities should continue to expand in the future since SCAG region farmers are well-positioned in terms of products and geography to benefit from the world's fastest growing agricultural export markets in Latin America and Asia.

Figure 16

Top U.S. Counties: Market Value of Agricultural Products

County	Value (\$1,000)
Fresno, CA	2,772,785
Kern, CA	1,968,513
Tulare, CA	1,921,381
Monterey, CA	1,749,747
Weld, CO	1,286,636
Merced, CA	1,273,475
Stanislaus, CA	1,208,504
San Joaquin, CA	1,179,706
Riverside, CA	1,047,525
Yakima, WA	873,495
Palm Beach, FL	872,877
Imperial, CA	850,351
Ventura, CA	845,613
Grant, WA	804,252
Lancaster, PA	766,743
Duplin, NC	746,449
Sampson, NC	732,859
Kings, CA	693,677
Castro, TX	668,439
Texas, OK	668,024
Maricopa, AZ	664,057
Santa Barbara, CA	659,741
Deaf Smith, TX	656,636
San Diego, CA	632,731
Madera, CA	627,610
San Bernardino, CA	617,833

Source: 1997 Census of Agriculture

2. The 1990-1993 Recession and the Foundation for Recovery

The 1990-93 recession was the SCAG region's biggest economic setback in sixty years; in particular, Los Angeles County was especially hard hit, alone accounting for 500,000 of the 550,000 regional jobs lost during the recession. Defense, construction, and retail spending declines explained much of the region's severe recession:

- Regional construction fell between 50% and 75% from 1989 to 1993.
- Between 1990 and 1994, the region lost approximately 100,000 defense industry jobs.
- Real consumer spending fell by 15% between 1990 and 1993.
- The region's share of total U.S. jobs peaked at 5.7% in 1989; by 1995, the region had only 5.1% of the national jobs—the lowest share since 1972.
- The regional share of manufacturing jobs declined from a 1989 high of 5.3%, to a 1994 low of 4.7%.

- Residential building permits declined from 115,000 in 1989 to 28,700 in 1993—a 75% drop.
- The region lost 68,000 jobs in construction and an additional 30,000 in related industries such as wood products, furniture, stone, clay and glass.
- Inflation-adjusted taxable sales fell from \$155.5 billion in 1990 to \$132.2 billion in 1993—a decline of 15% in only three years.

Although the region experienced a wrenching recession, the fundamental strengths of the regional economy have enabled it to recover

and gain strength. Job levels in Orange, Riverside, San Bernardino and Ventura Counties have all passed pre-recession levels, and, although Los Angeles County has not yet regained all the jobs lost during the recession, it has nonetheless had impressive growth, adding nearly 245,000 jobs between 1994 and 1998 (Figure 17).

As was noted earlier in this report, to a large extent, driving the regional recovery were job gains in the entertainment and tourism industries, diversified manufacturing, including textiles, apparel and toys, as well as growth in business services and foreign trade.

Figure 17

Southern California Job Growth Nonagricultural Wage & Salary Jobs

Metro Area	1994	1998	Total	% Job Growth
Los Angeles	3,701,900	3,946,700	244,800	6.6%
Orange	1,126,800	1,295,300	168,500	15.0%
Riverside-San Bernardino	751,300	875,200	123,900	16.5%
Ventura	233,300	251,400	18,100	7.8%
Southern California Basin	5,813,300	6,368,600	555,300	9.6%

Source: EDD, seasonally adjusted by CCSCE

As noted by California economist Stephen Levy, Director of the Center for Continuing Study of the California Economy (CCSCE), the SCAG regional economy possesses a strong base of assets that should further position the region for continued growth. Long term strengths include:

- A large domestic market (regional population base and taxable sales) and access to both Western U.S. markets and the Pacific Rim (Figure 18).
- The nation's largest port and airport complex.
- A large financial services complex serving both domestic and international markets.
- The nation's largest tourism and entertainment complex.
- The nation's biggest high tech complex built around the region's educational institutions, large pool of skilled labor and venture capital industry.

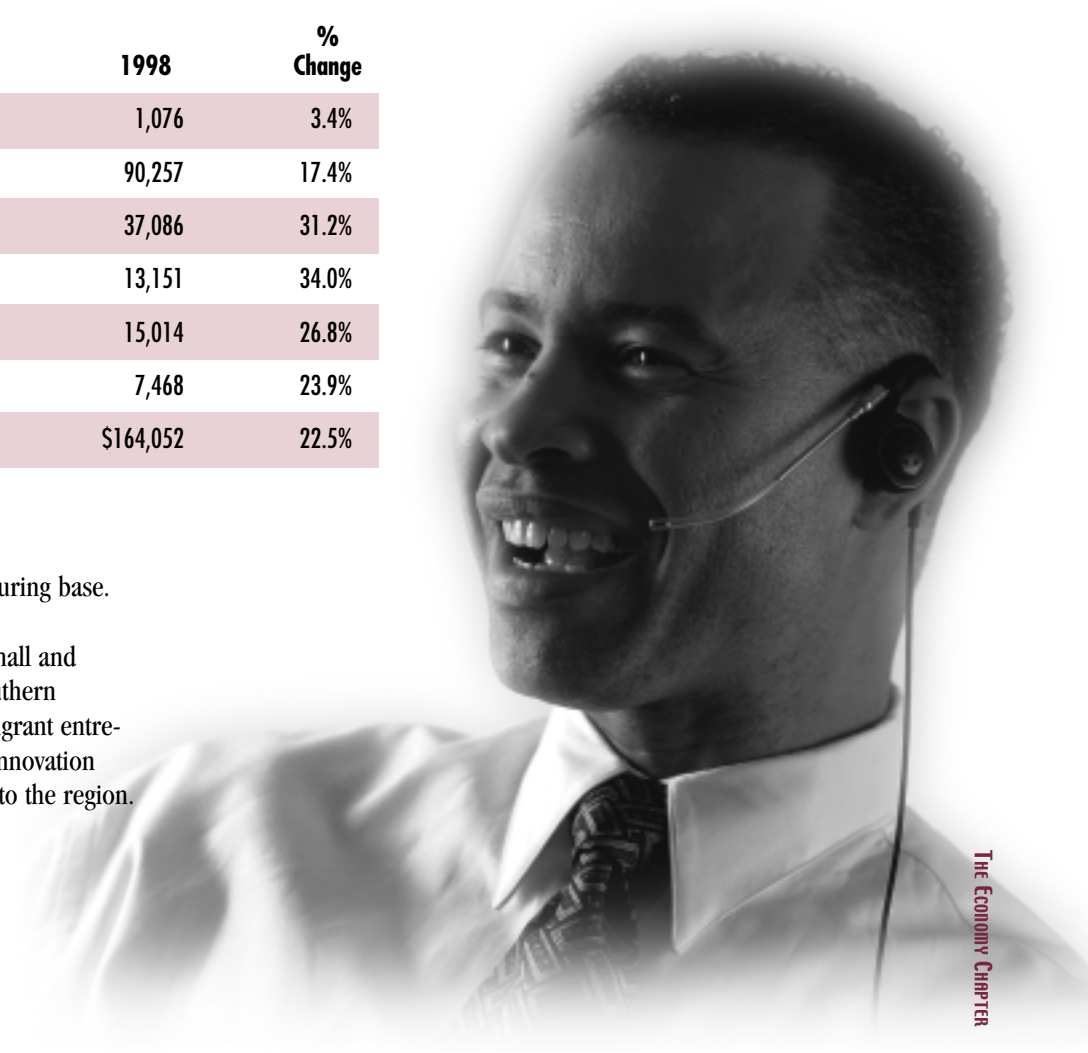
Figure 18

SCAG Basin Taxable Sales (\$ Millions)

County	1994	1998	% Change
Imperial	1,041	1,076	3.4%
Los Angeles	76,899	90,257	17.4%
Orange	28,276	37,086	31.2%
Riverside	9,815	13,151	34.0%
San Bernardino	11,844	15,014	26.8%
Ventura	6,026	7,468	23.9%
SCAG Region	\$133,900	\$164,052	22.5%

Source: California Board of Equalization

- A large and diverse manufacturing base.
- A growing number of new, small and medium sized businesses. Southern California is attractive to immigrant entrepreneurs, who bring energy, innovation and international connections to the region.



3. Regional Transitions

It is no longer accurate to think of Southern California as a defense industry-dominated region. In fact, it would be erroneous to think in terms of any single industry dominating the regional landscape. Although the region still maintains the largest concentration of manufacturing jobs in the nation, to a large extent, job growth has increased significantly in more knowledge intensive industries. For example, in 1972 there were three jobs in aircraft for every one job in motion picture production. By 1997, there were 65,000 more jobs in the motion picture industry than in aircraft manufacturing. Other knowledge-intensive industry sectors that have emerged through the recession include a burgeoning business services sector, the multimedia industry, and a software industry that has added 20,000 new jobs during the recent recovery.

a. Industry Change/Job Skills

These industry transformations have caused a shift in employment demands. The global sweep of technologies and the evolving employment needs of an increasingly knowledge-based economy have created a growing demand for highly skilled workers. In the past ten years alone, employment in the U.S. computer and software industries has almost tripled. But demand for workers who can

Figure 19

Southern California: County Population Demographics, 1997

	Los Angeles	Orange	San Bernardino	Riverside	Imperial	Ventura
White non-Hispanic	34.1%	58.1%	55.9%	61.4%	24.0%	62.2%
Black	10.2%	1.7%	8.6%	5.3%	3.7%	2.2%
Hispanic	43.1%	27.7%	30.1%	28.6%	69.9%	29.3%
Asian	12.3%	12.1%	4.7%	3.8%	1.5%	5.7%
Native Americans	0.3%	0.3%	0.6%	0.8%	0.9%	0.5%

Source: California Department of Finance

create, apply and use information technology goes beyond traditional high-tech industries, cutting across manufacturing and services, transportation, health care, education and government.

A skilled workforce is often cited by executives as the single most important asset a community can provide business. Due to pressures of global competition, shortened product cycle times, and the ubiquitous nature of technology, capital, and infrastructure, the critical difference between success and failure for many companies may be the human resources available. With this in mind, attracting, retaining and training a diverse labor force has become an increasingly important objective for regional economies.

b. Demographic Shifts

Southern California's demographic transformation represents one aspect of the region's globalization (Figure 19). The economic impact of the growing Hispanic and Asian populations was essential to the region's recovery in both retail sales and real estate. In Los Angeles County, for example, the precipitous decline of Anglo consumers since 1960 has been offset in large part by the huge growth in immigrants, who now account for more than 40 percent of the population. In little more than three decades, the Latino population more than tripled, adding almost three million people, while the Asian segment grew more than seven fold, with an increase of more than 800,00.¹⁰ In many areas, such as the San

Gabriel Valley and the industrial cities of Southeast Los Angeles, these groups have helped reinvigorate struggling retail districts. Similarly, large parts of Orange County have also benefited: between 1980 and 1990, Latino buying power increased nearly four-fold and was expected to double again by the year 2000.¹¹

The region's shifting demographics have also been critical to the regional housing market. During the recession, when most potential homebuyers were shying away from the market, Latinos jumped into it in large numbers, buying almost a quarter of a million homes in the five county areas between 1990 and 1995.¹² Roughly half of all Asians and U.S.-born Latinos in the region own their own home while almost one-third of Hispanic immigrants are homeowners.¹³

Immigrants and native-born minorities have played a critical role in developing the region's new network-centered economy. In a variety of industrial fields—garments, food processing, textiles, toys, electronics—they provided much of the workforce and entrepreneurial leadership that created other sets of effective regional networks. A 1994 Los Angeles study found that, among firms in these and similar industries, minorities, predominately Latinos and Asians, accounted for roughly one-third of all managers, two-fifths of research and development workers, and more than two-thirds of production workers.¹⁴ Furthermore, Los Angeles led the nation in the numbers of Asian, Latino, and African-American owned businesses; for Latino-owned firms, Orange County ranked sixth, San Bernardino twelfth, Riverside fourteenth and Ventura twenty-fourth¹⁵ (Figure 20).

Figure 20

Minority and Women Owned Businesses

	Total Firms With Employees	Minority Owned Firms With Employees	% of Total	Women Owned Firms With Employees	% of Total
Imperial	1,201	606	50.5%	0	0.0%
Los Angeles	100,961	33,096	32.8%	24,711	24.5%
Orange	34,825	7,986	22.9%	8,793	25.2%
Riverside	12,600	2,571	20.4%	3,140	24.9%
San Bernardino	13,376	3,206	24.0%	3,291	24.6%
Ventura	8,171	1,552	19.0%	1,961	24.0%
So. Calif.	171,134	49,017	28.6%	41,896	24.5%

Source: 1992 Economic Census

¹⁰ James P. Allen and Eugene Turner, "Ethnic Diversity and Segregation in the New Los Angeles," in *Ethnicity: Geographic Perspectives on Ethnic Change in Modern Cities*, edited by Curtis C. Roseman, Hans Dieter Laux, and Gunter Thieme, Roman and Littlefield, (Lanham, Maryland: 1996), p. 2.

¹¹ US Hispanic Chamber of Commerce.

¹² Dataquick Information Systems, La Jolla, California, 1996.

¹³ Rodriguez, *op. cit.*, pp. 9-10.

¹⁴ Friedman, "New Economy Project," *op. cit.*, p. II-24.

¹⁵ U.S. Census Bureau.

The newcomers, over four fifths of whom are Asian or Latino,¹⁶ also played a key role in the growth of industrial and warehousing activities in Orange County and the Inland Empire. Both areas, like Los Angeles, have experienced rapid demographic change. Once almost overwhelmingly Anglo, for example, Orange County is now one of the most diverse counties in the nation, with nearly one-quarter of its population born outside the U.S.¹⁷ A similar demographic shift has taken place in the Inland Empire.

Coupled with their powerful contributions to the purely regional economy, the role of immigrants in attracting business and investment to the region represents a significant and much overlooked aspect of the new Southland economy. For example, in Los Angeles County alone, there are more than 30 Chinese owned banks playing a critical role in attracting foreign capital as well as financing local entrepreneurs.

c. Regional Decentralization

The SCAG region is geographically dispersed (the region is larger than the state of Indiana), densely populated (the population is larger than Florida's), and as noted, both economically and ethnically diverse. No longer a region dominated by one or two industries or one specific municipality or sub-region, the SCAG area represents one of the most dynamic and complex metropolitan regions in the world.

Similar to development patterns in other metropolitan regions, economic and population growth is occurring faster outside the historical center of the SCAG region—Los Angeles. Whereas Los Angeles County in 1950 contained more than 84% of the regional population, today the county accounts for 60% of the regional population—a percentage that continues to decrease as the surrounding counties grow at a faster rate. Orange County's growth over the same period was nine times as rapid as that of Los Angeles County (Figure 21).

One potential result of this increasing geographic dispersal is lack of regional cohesion. Southern California is now a vast complex of smaller "sub-regional" economies. Over the past several decades, the massive shift of firms and people to the Westside of Los Angeles, the San Fernando Valley, Orange County and the Inland Empire has created a huge archipelago of economic hotspots, many of which see themselves only tangentially connected to the urban core of Los Angeles. One implication of this decentralized growth pattern is an increased difficulty to develop and implement regional economic strategies.

¹⁶ "Migration in the Southern California Region," Southern California Association of Governments, November, 1995, p. 6.

¹⁷ US Census, 1990.

Figure 21

County Population Growth				
County	1950	1970	1998	Population Increase 1950-1998
Imperial	62,975	74,400	143,400	128%
Los Angeles	4,151,687	7,041,980	9,649,800	132%
Orange	216,224	1,421,233	2,763,900	1178%
Riverside	170,046	456,916	1,458,500	758%
San Bernardino	281,642	682,233	1,645,800	484%
Ventura	114,647	378,497	738,200	544%

Source: California DOF, Report I 47-69, I 70-80, and E-2.

4. The Issue of Economic Competitiveness

Although there are, as discussed earlier, a number of areas of strength in the region's economic base, there are areas where Southern California's competitiveness may have suffered in recent years. Whether the measure is job growth or gains in real per capita income, the Southern California economy must continue to build on its competitive advantages.

Even if today's business climate were satisfactory, the challenge of maintaining regional economic competitiveness grows greater each year. Firms in an increasing number of industries have a choice of sites around the world for the location of new and expanded facilities and investment. Firms can choose not just between Southern California and Texas but between California, Japan, Mexico, Malaysia, and European locations.

Under these circumstances what does it mean for Southern California to be competitive in attracting high paying jobs? The main determinant of industry location in the long term is whether or not a region has competitive resources. Regional policy makers need to be concerned with five major categories of

competitive resources, which are considered to be the foundations of economic growth.

- A Competitive Work Force
- Efficient Infrastructure
- Quality of Life
- The "Business Climate"
- Business Leadership

The following is a brief discussion of each of these resources.

a. Work Force Competitiveness

Business location studies consistently show that the competitiveness of an area's work force is the principal determinant of long-term location/expansion decisions. A recent survey by California Business Intelligence Service,¹⁸ for example, indicated that the basic cost-effectiveness or competitiveness of the labor force remains the fundamental concern in selecting communities for relocation or expansion. When deciding on the best location, two sets of factors are carefully investigated:

- (1) basic wage rate plus fringe benefits, and
- (2) the productivity of the workers, measured by value added per unit of time or per employee.

¹⁸ *Supplement to Los Angeles and Orange County Business Journals*, November 29, 1993, p.17A-18A.



b. Efficient Infrastructure

Economically vital and competitive regional economies must have modern and efficient physical infrastructures—roads, bridges, highways, rail, energy systems, water and sewer, telecommunications, and airport and air cargo facilities—that facilitate business expansion, relocation, trade and investment. The most attractive regions for business expansion and investment during the 21st century will be those that give increasing attention to cutting-edge infrastructures that make business operations more efficient and responsive to international economic trends and allow businesses to operate more effectively in the global economy.

Infrastructure is another key determinant of business location. Can people, goods, and information be moved quickly and at competitive costs? As the economy becomes increasingly reliant on technology advancements, telecommunications networks—which determine how fast and efficiently information can be moved—will be a critical area of infrastructure competition. Infrastructure also includes providing adequate supplies of water and energy and handling the waste products of industry and people.

Southern California's well-developed cargo handling and transportation infrastructure has

allowed the region to maintain its competitive position as a hub for land, sea, and air cargo transportation in the Pacific Rim. For the region to remain globally competitive, however, significant new investment will be required to expand capacity, in order to benefit from the strong growth in international trade expected over the next two decades.

Construction of the Alameda Corridor, which will greatly facilitate goods movement between the Ports of Los Angeles and Long Beach and the rail and distribution facilities near the City of Los Angeles is a crucial part of the required investment, as is the Alameda Corridor East, which will accelerate the movement of goods and people through the San Gabriel Valley and on to the Arizona border. But existing air/ground/sea systems in the region must also be expanded and improved in order to sustain the efficiency of operations.

Modern air transport and manufacturing logistics infrastructures are becoming increasingly important to attracting and developing internationally competitive businesses. Governments and private-sector organizations must develop global trade logistics infrastructure support facilities that will help local businesses remain competitive and assist the region in attracting foreign investment. Facilities being developed in Ohio, Texas and North Carolina exemplify the types of cooperative actions cities will have to take. Locally, for example, the San

Bernardino International Airport located at the site of California's former Norton Air Force Base, has undergone a transformation into a commercial airport that includes the development of an integrated air cargo facility, as well as warehousing facilities. Other Air Force base conversions planned in the region include former bases George in San Bernardino County and March in Riverside County. Additional airport expansions under consideration within the region include Los Angeles International Airport and Burbank Airport.

c. Quality Of Life

Quality of life is a business location determinant as well as a social goal. In fact, education and infrastructure also address social goals while affecting Southern California's competitiveness as a business location. Quality of life includes environmental amenities (such as open space, air water, etc.), adequate resources to combat crime, cultural resources, affordable housing, and efficient transportation systems. Quality-of-life variables are particularly important in attracting and retaining high value added basic industry. Since such companies are welcome virtually anywhere in the world, only areas that compete well on quality of life, as well as on business costs and infrastructure, will prove successful.

the narrower site and location-specific criteria traditionally used by mass-production manufacturing industries is still important, a Policy Studies Journal report concluded that “a good deal of evidence gathered over the last 15 years from several regions of the United States suggests that least-cost location criteria may now have given way to quality of life (QOL) considerations in industrial location preferences” A region that actively supports the development and creation of an enhanced QOL environment is strongly valued by companies seeking to locate or expand their operations. Additionally, companies recognize the importance of quality of place as a necessity to attract a skilled labor force.

d. The Business Climate

Deterioration in Southern California’s business climate was a contributing factor to the region’s relative economic decline in the early part of the 1990’s. Adverse factors in the business outlook included real and perceived anti-business policies at the state and local levels and the severity of the area’s recession, which was both deeper and more prolonged than elsewhere in the state and the country as a whole.

Rules and regulations are a factor in business location along with work force, infrastructure, and quality of life considerations. Southern

California cannot ignore the implications of permit processes on location decisions any more than the state can ignore the implications of educational funding decisions on this region’s economic competitiveness.

On the positive side, the challenge of restoring competitiveness carries within it the seeds of a solution. The combination of recession and structural change which so dimmed the outlook in Southern California has, to some extent, resulted in a positive turn for the region. The reason: economic adversity tends to force people to think in ways they never would have, and to move in directions they would never have dreamed of taking. Necessity is the mother of invention. Professor Michael Porter of Harvard, author of the influential book *The Competitive Advantage of Nations*, puts it this way:

“The fundamental lesson is that the quiet life is an enemy of competitive advantage. Industries thrive when they are forced to overcome high labor costs or a lack of natural resources, when their customers won’t accept inferior or outmoded products, when their local competitors are many and murderous, and when government offers no protection from fair competition and sets tough technical and regulatory standards.”

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— Michael Porter

¹⁹ Hart, S.L., D.R. Denison, and D.A. Henderson. 1989. “A Contingency Approach to Firm Location: The Influence of Industrial Sector and Level of Technology,” *Policy Studies Journal* 17(3):599-623.

²⁰ *Fortune*, March 12, 1990, p. 95.

Clearly, many of these conditions exist in Southern California today. Porter's findings, which are now mainstream thinking, are the basis for optimism that business climate issues can, to a large extent, be corrected. Long term planning can assist in this process by maintaining a regional, "big picture" perspective and by stirring things up; i.e., by delineating strategies for the public and private sectors to follow and, if necessary, by prodding the appropriate players into action.

e. Business Leadership

In the past, private sector leaders have been critical shapers of America's great metropolitan regions. But today, and nowhere more than Southern California, the nature of that leadership is changing. The region, like most of the country, is undergoing a profound transition from a domestic and industrial age focus to one more clearly tied to the global information economy.

At the same time some of the new economic players, often running entrepreneurial startups or family owned firms, are too small or preoccupied with daily business issues to tackle

larger issues of regional leadership. The very diversity that has helped revive the economy often also serves to make some entrepreneurs leery of involvement in larger organizations, often due to lingering cultural or linguistic differences. Others find themselves more interested simply in their own specialized industry—entertainment is a classic example—than the fate of the larger region or even the city in which they are located.

As the region begins to move beyond recovery and towards envisioning a brighter future, this lack of a cohesive leadership could have profound consequences. With many other regions enjoying far more dynamic and committed business leadership, Southern California's remaining economic elites have proved peculiarly poor at either touting their own recent success, much less presenting a compelling case for continued investment and skilled immigration from outside the region.

In the long run, particularly once the current economic growth slows, this lack of a strong business leadership could ultimately undermine many recent economic and government advances. A fractured and ineffective business leadership would also be ill equipped to mount significant initiatives in such key areas as education, infrastructure and quality of life that are critical to the region's future competitiveness.

None of this suggests that Southern California will go back to traditional forms of business organization. The region's new economy makes impractical and inappropriate the old hierarchical, big company dominated structures of the past. A new kind of business leadership—drawing from the region's increasingly diverse economic and demographic base—will be required, with new organizations less tied by static bureaucratic structures. Building this business leadership of the next century will not be easy, but remains among the most critical challenges facing Southern California in the coming century.



LONG TERM

ECONOMIC FORECAST FOR

THE SCAG REGION

CAG's adopted regional forecast foresees job growth of more than 3.9 million and population gains of more than 6.7 million between 1994 and 2020. Total jobs in the SCAG area are projected to increase from 6.6 million in 1994 to 10.6 million in 2020, a gain of 60 percent. Projected employment growth will support a population of approximately 22.4 million residents in 2020. The region's population will grow by more than 43%, or 6.74 million people, between 1994 and 2020 (Figure 22). Projected population growth by county is shown in Figure 23 on the next page.²¹

Particularly since WWII, the SCAG region has served as a national job and immigration

center. Historically, Southern California's growth has been dependent on two main factors:

1. The number of additional people and jobs in the nation.
2. The share (percentage) of those jobs and people that chooses to locate in the SCAG region.

Rising birth rates and growing immigration levels have led the Census Bureau to dramatically raise its U.S. population projections. Approximately 57 million new residents are now expected in the U.S. by 2020, which will require the creation of approximately 40 million more jobs between 1996 and 2020.

Thus, one major reason the new SCAG forecast is higher is that the pool of new jobs and population that the region is competing for is much larger than previously expected.

SCAG forecasts the region's share of the nation's added jobs and population by 1) analyzing the region's expected share of new jobs separately for each of 49 basic industries; 2) deriving from these a set of forecasts of 21 local ("non-basic") industries based on analysis of trends in the ratio of non-basic to basic jobs; and 3) incorporating region specific birth rate and labor force assumptions by ethnic group to reflect the region's changing demographic characteristics.

Figure 22

SCAG Region Employment and Population Forecasts (Thousands)

	1994	2000	2005	2010	2015	2020	% Change (1994-2020)
Total Jobs	6,604.4	7,441.2	8,205.8	9,018.4	9,746.5	10,573.8	60.1%
Total Population	15,610.1	16,999.5	18,234.3	19,490.7	20,825.5	22,352.4	43.2%

Source: SCAG, 1998 RTP Adopted Forecast

²¹ The forecasts in this section for population and employment are being updated in preparation for the 2001 RTP, due for adoption in the summer of 2001.

Industry sector job growth in the region's economic base is shown in Figure 24. Southern California is expected to gain further from strong growth in the professional services and tourism and entertainment sectors, each with projected job growth of near 70 percent. Continued expansion of foreign trade will also support these sectors as well as the region's transportation and wholesale trade firms.

The distribution of jobs among the major categories in 2020 is also considerably different

now than in previous forecasts. By 2020, the share of manufacturing in total employment in the region falls from 14.7 percent (in 1994) to slightly less than 9 percent. Meanwhile, the share of services in the regional total rises from just under 27 percent to more than 41 percent (Figure 24).

Similar to the population and economic expansion of the last fifty years, current projections illustrate that both economic and population growth on the periphery of the region

is expected to outpace growth in the core parts of the region. For example, population growth in Imperial, Riverside and San Bernardino counties combined is expected to almost double (over 92%) between 1994 and 2020, while during that same period, Los Angeles and Orange County are expected to experience population increases of just slightly over 30 percent.

Figure 23

SCAG Region Population Forecasts

County	1994	2000	2005	2010	2015	2020	% Change (1994-2020)
Imperial	138,470	148,980	171,772	207,305	240,812	280,341	102.5%
Los Angeles	9,231,546	9,818,234	10,329,499	10,868,875	11,513,388	12,249,088	32.7%
Orange	2,595,147	2,859,236	3,005,791	3,105,322	3,165,423	3,244,602	25.0%
Riverside	1,376,879	1,687,764	1,976,938	2,265,250	2,531,683	2,815,987	104.5%
San Bernardino	1,558,344	1,772,539	2,005,402	2,239,579	2,512,670	2,830,050	81.6%
Ventura	709,758	712,699	744,927	804,329	861,565	932,326	31.4%
SCAG Region	15,610,144	16,999,452	18,234,329	19,490,660	20,825,541	22,352,394	43.2%

Source: SCAG, 1998 RTP Adopted Forecast

Figure 24

**SCAG Region Five County* Employment Forecast by Industry
(Thousands)**

	1994	2000	2005	2010	2015	2020	% Change 1994-2020	Share of Total Jobs in 2020
Total Jobs	6,552.0	7,739.0	8,136.6	8,943.4	9,664.4	10,483.9	60.0%	100.0%
Self-Employed	690	689.3	761.8	807.3	836.5	865.5	25.4%	8.3%
Total Wage & Salary Jobs	5,862.0	6,689.7	7,374.7	8,136.1	8,827.9	9,618.4	64.1%	91.7%
Agriculture	55.9	55.2	50.8	50.5	49.0	47.6	-14.9%	0.5%
Total Non-farm Wage & Salary Jobs	5,806.1	6,634.5	7,323.9	8,085.6	8,778.8	9,570.8	64.8%	91.3%
Mining	10.9	7.3	5.6	3.6	2.3	1.5	-86.3%	0.0%
Construction	199.7	244.8	261.6	273.8	280.3	286.5	43.4%	2.7%
Manufacturing	962.0	977.3	952.5	953.2	937.8	925.5	-3.8%	8.8%
Transp.Communications, Public Utility	287.5	308.9	323.7	343.9	358.1	373.5	29.9%	3.6%
Trade	1,349.4	1,522.8	1,668.8	1,799.1	1,896.4	1,996.1	47.9%	19.0%
Financial, Insurance, & Real Estate	380.2	399.1	430.9	455.3	470.6	485.9	27.8%	4.6%
Services	1,753.7	2,249.0	2,695.8	3,203.1	3,729.7	4,345.8	147.8%	41.5%
Government	862.7	925.5	985.1	1,0535.6	1,103.6	1,156.1	34.0%	11.0%

Note: * Imperial County not included due to lack of comparable data on employment by industry.

Source: SCAG, 1998 RTP Adopted Forecast



STRATEGIES FOR ECONOMIC PROSPERITY AND EQUITY

The decline in basic industry's share of total regional employment and output must be reversed. Basic industry has large multiplier effects on the economy and jobs, as well as higher wages and benefits than most other types of economic activity. More specifically, the region must increase its share of employment in those industries and service sectors where wages and salaries will be higher than average and where growth nationwide and internationally is expected to be strong. As noted earlier, however, many of the nation's industrial states and regions will no doubt be setting the same sorts of goals. Southern California must therefore focus its efforts on those basic industries in which it also has comparative advantage.

1. Introduction: The Need for a Regional Focus

As we enter the twenty-first century, the most critical challenge facing the Southern California region will be to secure a major role in the emerging information-driven

industries. These sectors—which include high-technology manufacturing, software design, professional services, entertainment, and multimedia—represent the fast-growth, high-wage arenas that will define the nation's economic future.

No region is better positioned to garner a larger portion of this surging, high-wage employment than Southern California. Not only does the five-county Los Angeles area possess one of the world's largest concentrations of scientists, engineers, and high-technology industries, but it has established a predominant presence in global culture-related industries such as movies, television, tourism, multimedia, and craft-based lifestyle products.

a. Advantage of Regional Clusters

Economic geography in an era of global competition poses a paradox. In theory, location should no longer be a source of competitive advantage. Open global markets, rapid transportation, and high-speed communications should allow any company to source any thing from any place at any time. But in practice, as scholar Michael Porter demonstrates, location remains central to competition.

Porter explains how regional industry clusters affect competition in three broad ways: first,

by increasing the productivity of companies based in the area; second, by driving the direction and pace of innovation; and third, by stimulating the formation of new businesses within the cluster. Geographic, cultural, and institutional proximity provides companies with special access, closer relationships, better information, powerful incentives, and other advantages that are difficult to tap from a distance. The more complex, knowledge-based, and dynamic the world economy becomes, the more this is true. Competitive advantage lies increasingly in local things—knowledge, relationships, and motivation—that distant rivals cannot replicate.

The presence of a group of competing companies contributes to the formation of new suppliers, the growth of companies in related fields, the formation of specialized training programs, and the emergence of technological centers of excellence in colleges and universities. The clusters also provide newcomers with access to expertise, connections, and infrastructure that they in turn can learn and exploit to their own economic advantage. If locations give rise to clusters, it is clusters that drive economic development. They create new capabilities, new companies, and new industries.

The ability to access competitive clusters is a very different attribute—and one much more far reaching in economic implication—than the more generic advantage of proximity to a large downtown area with concentrated activity. Competitive regional economies create two types of potential advantages: enhanced business formation and integration across clusters.

b. Enhanced Business Formation

Several cities in the United States are developing programs that bring together the resources of universities, businesses, and government to accelerate the development and commercialization of new technologies that can help make small and medium-size businesses internationally competitive. City governments can be catalysts for linking small and medium-size companies in various industries with universities and research institutes to develop new technologies and accelerate their commercialization. In the United States, high-technology complexes such as Route 128 in Massachusetts, the Silicon Valley, Research Triangle Park in North Carolina, and the Forrestal Research Center in New Jersey have stimulated the growth of small and medium-size enterprises by linking them directly to university-based research facilities. Government funding can facilitate the linkages between businesses and universities and develop an organizational structure through which technological

research and development in universities can be oriented toward the needs of small and medium-size businesses.

c. Integration Across Clusters: Flexible Specialization

Companies providing supplies, components, and support services can be created to take advantage of a region's proximity to multiple nearby businesses. This new economic paradigm has been described by MIT economists Michael Piore and Charles Sabel as "flexible specialization." In this system, various players within an industry cooperate across size and areas of competency in order to produce highly specialized, even customized goods, usually at the upper end of the market.²² "Flexible specialization" has been used to explain intra-industrial patterns in much of Silicon Valley and may have much to do with that area's preeminence in many technology-based industries.²³

In Hollywood, "flexible specialization" involves the increasing collaboration between the major studios and a host of smaller, often quite specialized, independent entertainment companies. The studios provide the necessary marketing, along with the financial and technical infrastructure, while helping to coordinate the varied inputs of the smaller companies. Most of the creative input—the direction, look, design, and conceptualization—comes from smaller independent firms and freelancers.

²² For a further discussion, see Michael J. Piore and Charles E. Sabel, *The Second Industrial Divide: Possibilities for Prosperity*, Basic Books: New York, 1984.

²³ For a further discussion on Silicon Valley's "network economy," see AnnaLee Saxenian, *Regional Advantage: Culture and Competition in Silicon Valley and Route 128*, Harvard University Press, 1994.

d. Access to a Qualified Workforce

New Economy businesses need to be near or have electronic access to a pool of knowledge workers, expertise and technical resources. John Kasarda calls this a knowledge center ²⁴ that can generate or stimulate innovation and provide a reliable source of scientists, engineers, and managers. Incorporating continuous innovation as a standard of operating practice is something that insulates successful firms from becoming obsolete by newer technologies. Among the most important knowledge centers upon which Smart Communities depend are Research and Development laboratories, colleges and universities that provide research capabilities and trained personnel and consultants that help companies coalize technology and manage activities.

Businesses in the Information Age depend not so much on reasonable labor costs but more on a high-quality workforce. The skilled workers in Salt Lake City, Sacramento, and the Minneapolis-St. Paul area help companies increase their productivity and efficiency and adjust quickly to changing worldwide market demands. Educational institutions in Austin supply the skilled workers that give it an advantage in attracting international companies. Salt Lake City has the highest literacy rate in the United States, which gives prospective employers greater flexibility in hiring

opportunities. Phoenix has made itself attractive to high-tech firms because of its large, well-educated, productive workforce and excellent school system, which includes a community college network geared to providing business skills.

²⁴ John D. Kasarda, "Innovative Infrastructure for Agile Manufacturers", *Sloan Management Review*, Winter 1998.

2. Strategies to Expand and Diversify the Region's Economic Base

A state-of-the-art strategy to energize basic industry will require collaboration and cooperation through industrial clusters in order to improve competitiveness and stimulate real fixed investment. The first step is to increase the awareness of both the private and the public sector in the region as to what efforts are already under way supporting industry cluster formation.

Every location—whether it is a nation, a region, or a community—has a set of unique local conditions that underpin the ability of companies based there to compete in a partic-

ular field. The competitive advantage of a location does not usually arise in isolated companies but in clusters of companies—in other words, in companies that are in the same industry or otherwise linked together through customer, supplier, or similar relationships.

As in other regions across the country, there are a number of industry clusters in the SCAG region, each possessing unique elements that contribute to Southern California's economic base. The industry cluster list below is not meant to be exhaustive, but instead is intended to be illustrative and reflect current trends in industry and regional strategy activities. Additionally, at the end of most industry cluster descriptions, readers will find the URL web site address for each group.

DIVERSIFIED MANUFACTURING

California Fashion Association (CFA)

The Los Angeles-based California Fashion Association started as an outgrowth of an economic roundtable hosted by Los Angeles Mayor Richard Riordan. Prompted by the 1995 El Monte arrests of a forced labor "sweat-shop" operation, industry leaders began working together to initiate efforts that would trumpet the economic benefits of the industry and deal with challenges as well.

With nearly 200 members, the CFA is comprised of manufacturers, their suppliers, financial and professional services, allied associations, and applied educational institutions. The main purpose of the organization is to foster industry networking and information for compliance with labor laws, for international trade, and for technological advancement, while additionally working to build a positive image for the industry.

Since its start, the CFA and the recently created California Fashion Association Community Development Foundation have launched a variety of industry initiatives that include:

- An industry-wide health, dental, and life insurance program for employees of its member companies and their sub-contractors. The program guarantees admission for all employees at common rates, as well as acceptance of enrollees with pre-existing conditions.
- A vocational training and technical skills program in partnership with the state's Employment Training Panel (ETP).
- A pilot daycare initiative with Los Angeles Elementary School that includes programs in the areas of art and music, as well as academically focused intercession programs for year-round school.

- An immigration assistance program in partnership with a non-profit immigration law clinic, which handles problems for garment workers.

- Public/Private roundtable forums that have included industry leaders as well as Governor Gray Davis, U.S. Senator Diane Feinstein, and former state Attorney General Dan Lungren.

WEB SITE:

<http://www.Californiafashion.org/>

Los Angeles Manufacturing Network Initiative (LAMNI)

Under the auspices of the Community Development Technologies Center and L.A. Prosper Partners, the Los Angeles Manufacturing Network Initiative (LAMNI) acts as an umbrella organization facilitating the activities of various manufacturing industry cluster activities. LAMNI specifically helps manufacturing networks pursue collective, market-based approaches to industrial competitiveness. The network activities include educational and training programs, as well as supporting cluster networks to a continuum of services that address major barriers to growth and expansion.

Focusing on key industries in the Southern California region, LAMNI cluster groups include the biomedical industry, food processing, and the toy industry (all profiled below), as well as a furniture design and manufacturing collaborative, apparel, and a plastics industry network.

Southern California Biomedical Council (SCBC)

Medical manufacturing is becoming a big business in Southern California. The region contains about 2,300 biomedical firms, employing at least 80,000 people. Of these, over 800 biomedical firms employing over 30,000 people and generating about \$4 billion in revenues call the region home; the rest of the firms are branches of out-of-state or foreign companies. Most of the region's firms are young and small (75% emerged during the last 25 years, and 80% employ less than 50 employees). These firms develop and manufacture a wide variety of products—drugs, reagents, vitamins, biologicals, surgical instruments, hospital supplies, vision care products, clinical research instruments, imaging and diagnostic tools, artificial limbs, implants, catheters, dental products, medical plastics and personal hygiene products.

In support of this industry, the Southern California Biomedical Council (SCBC) is a collaborative association whose mission is to encourage networking and promote medical research and manufacturing in Southern California. The Council is a non-profit, mutual-benefit California Corporation. Membership is open to firms and organizations engaged in medical technology development throughout the region.

Members of the SCBC believe that, in today's health care environment, the model of the isolated firm is neither efficient in enabling firms to mobilize resources nor adequate in meeting the challenges of medical research and manufacturing. Members therefore believe that an alternative model of doing business based on networking is key to biomedical technology development in Southern California. The council is a vehicle for initiating and facilitating such networking.

The Council carries out a number of programs seeking to:

- Facilitate business-to-business transactions among members of the SCBC;
- Help in mobilizing capital for start-ups and firms seeking expansion;

- Ease the industry's national and local regulatory burden;
- Advocate on behalf of the region's firms concerning local, state and national legislative issues affecting the industry's growth and dynamism;
- Promote linkages with local universities, research institutions, and other educational institutions for training and technology transfer purposes;
- Provide information, including a newsletter, and customized technology and market research, to support the industry and educate the public about the economic benefits of biomedical technology development.

The council's web site, listed at the end of this section, was created for the purpose of encouraging virtual networking and maximizing access to resources essential for Southern California's medical technology development. It takes advantage of the Internet's ability to create connectivity by linking people and firms from throughout the world together, thus enabling the region's firms to capitalize on new business opportunities to compete effectively.

Nurturing the region's biomedical industry will

also help in stimulating the growth of allied industries, such as suppliers of electrical and electronic components, software, programming services, plastics, glass, chemicals, metal parts, and scientific instruments. Furthermore, data from SCAG show that biomedical manufacturing generates strong employment multiplier effects. In short, the region's biomedical industry, if nurtured, can contribute significantly to job growth and wealth creation in the entire region.

WEB SITE:

<http://www.socalbio.org/>



Food Industry Business Roundtable (FIBR)

Growing out of a series of forums conducted by RLA with members of the local food processing community, FIBR is composed of a broad segment of food processors who handle ethnic and/or specialty foods. In Southern California's broad and diverse cultural landscape, food processors stand to benefit tremendously by capitalizing upon the region's rich cultural resources. Networking, mutual learning and collaboration represent the means by which members of the food processing industry can become collective beneficiaries under the framework of FIBR.

Organizational goals include:

- Encouraging interaction between all segments of the ethnic-food manufacturing industry;
- Working with local government, regulatory and economic development agencies;
- Partnering with local community colleges to improve job skills for the industry's workforce;
- Building linkages between private and public sources of capital for sustained growth; and

- Keeping members informed about current industry trends, trade policies, and regulatory developments.

LAMNI will continue to support economic development strategies within the local food processing industry. The viability of FIBR remains a critical component of LAMNI's work with ethnic and specialty food producers as the organization enters into a third phase of revitalizing the local Los Angeles economy.

WEB SITE:
<http://www.fibr.com/>

Toy Association of Southern California (TASC)

TASC is composed of a broad segment of toy importers, distributors, and manufacturers in the greater Los Angeles region. By coming together, the local toy industry stands to benefit tremendously by collectively addressing issues of common concern. Networking, mutual learning, and collaboration represent the means by which members of the toy industry can become collective beneficiaries under the framework of TASC.

Toy manufacturing, design, and distribution is a growth niche in the SCAG basin. Employing

Figure 25

Los Angeles County Toy Industry Comparison

Manufacturing	Firms	Employment	Sales
Dolls and Stuffed Toys (SIC 3942)	33	211	\$8,473,000
Toys and Games (SIC 3944)	91	2,842	\$3,386,612,819
Subtotal	124	3,053	\$3,395,085,819
Wholesale			
Toys and hobby goods (SIC 5092)	399	2,973	\$985,212,884
Subtotal	399	2,973	\$985,212,884
Totals	523	6,026	\$4,380,298,703

Source: LAEDC, 1997

more than 6,000 people, the regional industry has become an international hub sending toys throughout the United States and into Mexico and South America. In fact, according to industry sources, more than 60% of the \$12 billion in toys sold in U.S. retail stores in 1998 were probably distributed from Southern California. Manufacturers range in size from the El Segundo-based Mattel, the world's largest toy company at 21,000 employees and \$3 billion in annual sales, to other smaller companies such as Applause Inc. in Woodland Hills, a leader in stuffed animals that employs 600, to A&A Plush in Compton, the U.S. arm of a Seoul teddy bear supplier with 20 employees (Figure 25).

WEB SITE:
<http://www.tasc-toys.com/>

ENTERTAINMENT & MULTIMEDIA INDUSTRY

Entertainment Industry Development Corporation (EIDC)

In a move to promote economic growth and streamline government, Los Angeles Mayor Richard Riordan, the Los Angeles City Council, and the Los Angeles County Board of Supervisors, in partnership with the motion picture production industry, merged the city and county film offices to create the Entertainment Industry Development Corporation (EIDC). EIDC opened its doors on July 1st of 1995.

The EIDC coordinates and issues film shooting permits for many jurisdictions in Southern California. From pre-production assistance with location selection to 24-hour problem solving, the EIDC delivers a comprehensive production service package. EIDC's customer base is spread throughout Southern California. Customers include entertainment-related businesses, government, professional and labor organizations, community groups, area residents and local merchants.

EIDC's mission is to promote the region for what it is, the global entertainment mecca. The EIDC provides services, solutions and answers to the varied challenges and questions that are raised when filming in the real

world. While the EIDC provides services to the entertainment industry, it also works hard to enhance the positive aspects production activity will have on a community.

This local community building is an integral part of the EIDC's role. The industry and communities must support one another. The EIDC supports and cultivates community-based arts organizations. Hoping to create opportunities in the high-growth entertainment industry for local communities, the EIDC builds programs that give people access to jobs and training. The featured education and workforce development program sponsored by the EIDC is the Hollywood Entertainment Training, Research and Education (EnTRE) initiative. The two primary goals of the program are:

Primary goals of the program are:

- The creation of a coherent, comprehensive and integrated workforce development system that meets the current and future employment, education, and training needs of the entertainment industry (with a strong emphasis on expanding opportunities for the under-represented communities).
- Connecting and amplifying industry support of public education and other youth serving activities

Hollywood EnTRE's programs include labor research, retraining opportunities for existing industry workers, involvement throughout the K-14 public education system, development of an entertainment industry mentor and volunteer network, and a consortium of youth-serving activities at the community level.

WEB SITE:

<http://www.eidc.com/>

***Los Angeles New Media Roundtable
(LawNMoweR)***

LAWNMoweR was founded by Jim Jonassen of the Larkin Group. In 1992, Jonassen focused the Larkin Group on the rapidly emerging interactive media industry ignited by the advent of game, "edutainment," reference and educational titles being published on CD-ROM platform. The absence of a core community of experienced professionals, coupled with the unprecedented migration of talented professionals from related industries into multimedia were the catalysts for Jonassen to organize a monthly roundtable discussion for practitioners and interested parties looking for the on-ramp to the information superhighway.

Casual gatherings soon turned into more formal dinners at which investors, industry analysts and pundits predicted trends in the soon-to-be multi-billion dollar industry. Simultaneously, corporate executives and

entrepreneurs introduced exciting new technologies and developers and publishers premiered titles. LAWNMoweR, with its unusual combination of substance and good vibe, was known for fostering a sense of community within the Los Angeles new media industry and for anchoring interaction across company, industry and functional boundaries.

In 1995, LAWNMoweR began producing quarterly events for larger numbers of attendees and participants. With the intent of fostering business relationships within the new media business, LAWNMoweR looked to corporate sponsors to support events in exchange for access to the Los Angeles area's new media community and a forum to promote products and services. Events typically focus on a topic with speakers or panelists engaged in an interactive dialog with the audience. These sessions are always followed by the LAWNMoweR Showcase, in which attendees enjoy live music, refreshments and conversation with their colleagues while visiting demos, presentations and displays offered by companies showcasing their products and services.

LAWNMoweR LIVE events bring together practitioners involved in the development and production of interactive programming, managers who determine the design of distribution infrastructure, technical innovators who develop enabling technologies, as well as the interactive advertising and professional service organizations supporting the industry.

Endorsements of the LAWNMoweR Showcase underscore the value of business development, marketing and promotional activities as well as the opportunity to meet with prospective employees, investors and strategic partners. Venues range from nightclubs to prestigious universities, to funky sound stages across the Los Angeles basin. Attendance at LAWNMoweR gatherings averages between 400 and 1,000 people, with invitations extended via fax, e-mail and post card to over 4,000 in the community.

In addition to its live events, LAWNMoweR publishes a newsletter called, "LAWNMoweR Clippings." Clippings features background information on sponsors, presenters and showcasing companies as well as news, stories and opinion from members of the community. In 1996, the LAWNMoweR Online web site was launched (web site address listed below) with the primary focus dedicated to promoting upcoming events and to providing links to sponsors and participants.

WEB SITE:

<http://www.lawnmoweronline.com/>

HIGH TECHNOLOGY

IE21

Launched in August, 1997 as a partnership between the Inland Empire Economic Partnership (IEEP), the Inland Empire Technology Consortium, and the Inland Empire Technology Entrepreneurs Forum, IE21 establishes a strategic linkage between the region's business, academic, and economic development communities for the purpose of fostering a high tech regional economy. IE21 is a long-term strategy to shift the Inland Empire to an economy based on high-technology industries employing educated workers whose skills command the high wages required to support a rising standard of living for the region in the 21st century.

IE21 is the product of more than a year of effort by Inland Empire business, academic, government, and civic leaders to determine the requirements of creating high-wage industry in the region. It incorporates the most current knowledge and research on the determinants of regional prosperity in the global economy, drawing from the development lessons of such economically successful areas as San Diego, Seattle, and Austin.

IE21 is intended to be a market-guided economic development consortium, driven by a wide range of Inland Empire organizations and "civic entrepreneurs" so as to fully reflect the diverse needs and human and organizational talent of Riverside and San Bernardino counties. In that spirit, IE21's basic approach is to promote strong collaboration and linkages between the region's business, higher education, and government communities in pursuit of three general aims:

- Fostering the startup and expansion in the Inland Empire of high-tech, high-wage-paying businesses in the widest possible range of local industries;
- Facilitating technology transfer and educational programs from higher education institutions to support high-tech business formation and expansion; in particular by spawning spin-off companies from the region's universities;
- Nurturing long-term public-private relationships to ensure that the region offers a favorable environment for high-tech industry for generations to come.

WEB SITE:

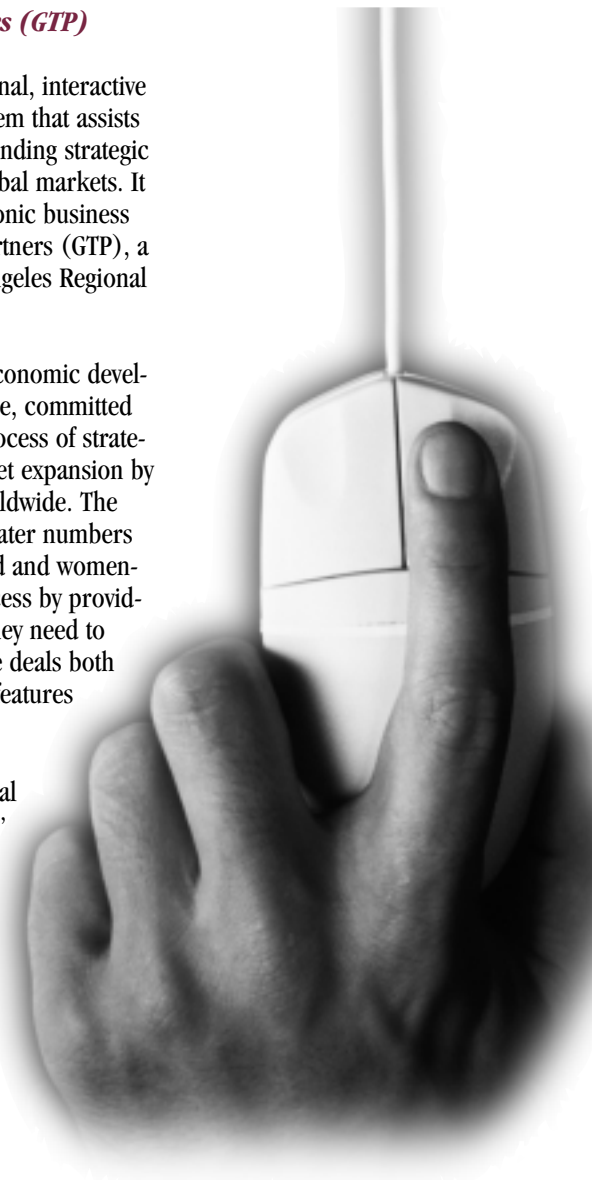
<http://www.optivus.com/ie21.html>

Global Technology Partners (GTP)

Global California is an educational, interactive and transaction-based web system that assists entrepreneurial companies in finding strategic partners, investors and new global markets. It constitutes the common, electronic business forum of Global Technology Partners (GTP), a program of the 5-county Los Angeles Regional Technology Alliance.

GTP is a new collaborative of economic development organizations worldwide, committed to easing and facilitating the process of strategic partnering and global market expansion by entrepreneurial companies worldwide. The program also aims to bring greater numbers of under served minority-owned and women-owned companies into the process by providing the tools and information they need to grow their businesses and close deals both at home and abroad. Program features include:

- A 24-hour mentor and virtual assistant to global "clusters" of emerging small and medium-sized businesses seeking to easily and cost-effectively:
- Resources to help identify new strategic partners, suppliers and customers;



- Access support services necessary to prepare for, negotiate and close deals;
- Support in locating investors and other sources of financing and;
- The opportunity to establish new regional, national and global markets.

A specific feature of this system is the Global California Clusters program. Participants can browse the Cluster Directory and connect to a vast electronic network of entrepreneurial companies, leading technology-based firms, and economic development organizations worldwide. Once connected, participants are linked to strategic partners and business allies, money and investors, useful products and services, and new global markets. By 1999 the Cluster Directory had grown to some 10,000 members from California. Cluster Directory links are available for the following industry sectors:

- Biomedicine
- Computer Hardware and Electronics
- Computer Software
- Defense and Aerospace
- Economic Institutions and Development Organizations
- Energy

- Entertainment and Multimedia
- Environmental Products and Technologies
- General Manufacturing
- Professional and Business Services
- Robotics - Factory Automation - Manufacturing Equipment
- Subassemblies and Components
- Telecommunications
- Test and Measurement
- Transportation

WEB SITE:

<http://www.globalca.com/>

ADVANCED TRANSPORTATION SYSTEMS AND TECHNOLOGY:

Advanced Transportation Industry Consortium (ATIC)

The ATIC is a public/private collaborative that seeks to promote the development of skilled workers for the advanced transportation industry in Southern California. Functioning as a regional facilitator, the ATIC works with

employers and educational and training experts to identify the academic and technical skills that will be required for the transportation industry of the future. The focus of the program is to match employers with schools, colleges and universities to jointly develop regional academic and skill specific programs and services that respond to the industry's evolving demand for workers.

Primary initiatives undertaken by the ATIC include:

- The creation of an ATIC Workforce Development Web Site
- The development of an annually updated five-year workforce strategic plan
- The creation of an annual implementation plan responsive to the workforce strategic plan
- The dissemination of the annual plan to employers, policy makers, education and training providers, regional government, and transit agencies

ATIC's operational principles are to:

- Function as a regional facilitator to promote workforce development for the transportation industry

- Work through the existing and evolving education and training systems to deliver and institutionalize regional programs and services (federal, state and/or locally funded programs)
- Operate as a dynamic network of strategic alliances versus a formal institution
- Evolve into an employer/industry led regional, independent, non-duplicative, and self supporting entity

The Consortium seeks to add value to the existing activities of private firms, public agencies, and educational and training institutions by:

- Developing industry consensus about its current, near term and future workforce needs.
- Providing stewardship to workers (current and emerging) to match industry's labor market demands.
- Providing industry feedback to education and training providers.
- Establishing economic strategies to bridge the Consortium from initial seed funding and in-kind resources to long term sustainability.

CALSTART

CALSTART is a non-profit organization dedicated to the creation of an advanced transportation technologies industry and related markets. CALSTART is made up of over 200 companies and organizations involved in the electric, hybrid electric, natural gas and intelligent transportation systems arenas. CALSTART participants range from large companies like Toyota and Hewlett Packard to small start-up technology businesses.

CALSTART serves as a “strategic broker” in linking people and ideas together, further accelerating the pace of growth in this expanding industry. CALSTART provides key industry services that bring together people, technologies and resources to bridge the gap between technology development and the marketplace. CALSTART has created and is now managing over \$90 million in 50 different technology development programs.

CALSTART programs and services include:

Strategic Information

Weekly informational faxes showcasing a variety of topics, such as partnering opportunities, market information and consortium news; CALSTART Connection Newsletter; CALSTART NewsNotes, highlighting breaking industry

developments; discounts on CALSTART publications, workshops and conferences.

Industry Networking

Links to partners, market contacts and access to CALSTART's diverse technology network, made up of 200 private and public participants.

Funding Opportunities

Notification of technology development funding and Financial Advisory Committee Review of qualifying companies.

Marketing Visibility

Accelerated marketing and promotional opportunities for member company's products and services, including a detailed company listing on CALSTART's Internet “Industry Yellow Pages” and product catalog.

Technical Assistance

Assessment of promising new technology and Technical Advisory Committee Review of qualifying technologies. Leveraging its industry knowledge and technology expertise, CALSTART provides custom services to help companies bring their products to market. CALSTART's retainer services are available for additional fees. Retainer services include:

- Strategic Brokering
- Technology Sourcing
- Creating Technology and Market Teams
- Consulting/Implementation
- Designing Programs to Place Clean Vehicles in Service
- Graphic and Web Design
- Business Incubation Support
- Providing shared space, equipment and tools
- Access to incubator service provider network
- Marketing Research
- Technology Development

WEB SITE:
<http://www.calstart.org/>

Southern California Economic Partnership (The Partnership)

The Southern California Economic Partnership is a publicly/privately funded, non-profit organization with an 18-member Board of Directors. Its goal is to accelerate the deployment of Advanced Transportation Technologies (ATTs) throughout Southern California.

The Partnership, with the assistance of stakeholder “Cluster Groups”, facilitates the creation of public/private business partnerships and provides a range of education and outreach activities to local governments regarding the deployment of the following ATTs:

- Electric Vehicles
- Natural Gas Vehicles
- Smart Travel (Intelligent Transportation Systems)
- Smart Shuttle Transit
- Smart Telecom (Telecommunications)

Ultimately, the purpose of developing these technologies is to provide consumers with products and services that preserve the same quality of life and convenience of mobility they experience today, and to help spur the development of new jobs in the region. The Partnership provides fundamental direction and guidance to local governments, product developers and service providers concerning the accelerated deployment of the five technologies. It also offers ATT stakeholder meetings, workshops to help support the creation of sustainable markets, and comprehensive ATT “Model City Starter Kits”.

WEB SITE:
<http://www.the-partnership.org/>

3. Key Issues Affecting Regional Competitiveness

Although many of the economic trends over the last several years have been positive for the region, abundant growth opportunities do not guarantee long-term success. To achieve long-term success, cooperation between the public sector and the private sector will be needed to address the myriad of challenges facing the region. The following is a list of critical policy issues impacting the region:

- Workforce Challenges
- Housing
- Infrastructure
- State and Local Government Fiscal Reform
- Local Buy-In to a Regional Economic Strategy
- Regional Business Leadership

Workforce Challenges

A recent Rockefeller Foundation funded workforce report written by the Center for Continuing Study of the California Economy

(CCSCE) identified four current trends that symbolize Southern California's and the state's emerging challenges in developing workforce preparation strategies and programs:

1) In 1997 California developed state rules and programs to move welfare recipients into the workforce. Despite a significant caseload decline, there are approximately 500,000 adult welfare recipients statewide who must find jobs or eventually face reduced welfare support.

The first step for most welfare recipients will be a low paying entry-level job—in competition with millions of Californians holding or seeking similar jobs.

2) There are approximately one million California workers who meet the strictest definition of “working poor”. These workers are doing everything that the new laws require of welfare recipients, yet they live in households with incomes below the poverty level. While it is not true in every case, for the most part welfare recipients and the working poor are competing in the same job markets. Thus, developing workforce strategies to help working poor families is an additional welfare reform element now under policy consideration.

3) Southern California's expanding knowledge-based economy is creating a huge demand for

highly skilled workers. It is in the high skilled occupations that employers are having the greatest difficulty filling available jobs.

It is too much to expect that welfare recipients and existing entry level workers can fill immediate high skill job openings. These shortages, which can eventually threaten the region's technological leadership position, must be approached with a different set of strategies.

4) Most Californians work in jobs that require somewhere between entry level skills and highly technical training. Three years of strong income growth has brought some increase in living standards for these workers and their families. Yet, even in 1998 many “in the middle” have seen two decades of wage stagnation, increasing pressures and changes in their work life.

Including the middle class in California's workforce preparation strategy is very important for several reasons:

- The middle class is a target for welfare recipients. The major goal of welfare reform is to help recipients and their families move out of poverty through work.
- Many members of the middle class are also being left behind in terms of rising living standards.

- It is existing middle skilled workers who are the best candidates for getting vocational training to fill existing high skilled job vacancies.

There is broad bipartisan agreement that welfare recipients and employers will need support to achieve success even if there are many low skill jobs available. There is agreement that not all welfare recipients are prepared for entry-level jobs. Depending on their circumstances, welfare recipients and their families may need:

- Child care assistance
- Basic education and training
- Job search skills
- Transportation assistance
- Job retention attributes such as punctuality, consistent attendance, interpersonal skills, and work effort



Although the state has adopted programs to provide assistance in many of these areas, the 1998 Regional Transportation Plan (RTP) from SCAG concluded that the transportation needs of welfare recipients can be largely met with existing services and resources, provided information regarding existing services is made available to appropriate agencies. Additionally, transportation, social service, and employment agencies forge strong working relationships that result in service gaps being identified and addressed. Overall, the SCAG analysis revealed that the frequently cited “spatial mismatch” between residential location and likely employment locations is not applicable in the Southern California region, and that many welfare recipients moving into the workforce can be served by existing public transit, carpools, and vanpool options.

There is little disagreement that California needs a workforce strategy to help welfare recipients enter the job market and a workforce strategy to help California’s lead industries find all the highly skilled labor they can hire. What is now being increasingly understood is the implication that California also needs a workforce strategy for the middle groups. Helping existing entry level workers move up and “make room” is critical to the transition of welfare recipients into entry level jobs. Otherwise California will have instituted a sort of “musical chairs” in the low skill job market where an increasing number of workers compete for a limited number of jobs. In

order to effectively address the welfare-to-work situation, a comprehensive strategy must be undertaken that reflects the inter-relationship between the types of jobs being created and the skills needed to transition people into those jobs.

Housing

Because potential employers look at a region’s housing when considering relocating or expanding their businesses, affordability and the location of quality housing have a significant impact on the region’s ability to maintain a viable economy. Given the recent strength of the regional economy, employment and income growth are driving an improved real estate market. Interest rate declines, renewed job and population growth, and a move towards equilibrium with housing prices in other areas are laying the groundwork for a stronger residential construction market. After sharp declines in the early 1990’s, residential building permits registered healthy growth for four years in a row, jumping 12 percent in 1996, nearly 20 percent in 1997, just over 8 percent in 1998, and another 20 percent in 1999. Nonetheless, it should be noted that the average number of permits issued during the period from 1996 through 1999 was still 55 percent below the annual average for the 1980s.

Affordability indices have rebounded in all SCAG regional markets. From the lows established in 1989, by the end of 1998 the median

priced house was affordable for 40 percent of Los Angeles County households, 37 percent of Orange County households, and 55 percent of all households in the Inland Empire, as reported by the California Association of Realtors. Moreover, median housing prices in competing western markets are now equal to or higher than Southern California prices. For example, 1998 median resale prices in the Inland Empire (\$125,000) were lower than those in Denver (\$150,000), Las Vegas (\$125,400), Portland (\$159,000), Salt Lake City ((\$131,000), and Seattle (\$185,800). Median prices in Los Angeles County (\$200,000) are closer to competing areas than at any time in the past 20 years and only Orange County median prices (\$270,000) remain substantially above those in competing regions.

With housing prices increasing and residential, apartment and multifamily construction lagging, existing housing demands are expected to increase. According to the Building Industry Association of Southern California, Inc., the region’s housing market is beset by two fundamentally inhibiting circumstances: 1) community “no-growth” sentiments that artificially constrain the availability of land, and 2) fees and exactions placed on new housing construction to fund community improvements. One result of Proposition 13’s limitation on property tax revenues is the parallel rise of local government fees on development. This change turns the incentives against housing

and industrial development and towards tax generating retail development.

The current local government fiscal situation provides little incentive for any municipality to do anything in the way of housing, because housing is a net cost, not a revenue generator. This fact results in a fiscal situation where most governments want to avoid building housing. Furthermore, compounding the single-family housing problem, multiple-unit dwellings (e.g. apartment buildings) are becoming increasingly difficult to build. Voters often have great antipathy towards multifamily housing, and due to California's litigious atmosphere, builders are becoming increasingly reluctant to build multiple-unit structures.

Infrastructure

Public investment is necessary to attract private investment. Public investment in schools, transportation, universities, ports, airports and adequate power and water supplies are essential requirements of a 21st century economy. Moreover, public investment is required to maintain and improve the quality of life. Therefore, the ability to attract workers and firms is dependent upon critical infrastructure investment that can create good schools, mitigate congestion and crime problems, and create world class recreational opportunities.

Increasingly regions compete with regions around the world to provide the kinds of infra-

structure, amenities, and services that are attractive to world-class companies and people. Yet regional municipalities have extremely limited flexibility to plan for and fund the changing demands of business and citizens. For example:

- To raise taxes for specific infrastructure projects or operations, cities and counties must launch campaigns to pass ballot initiatives by a 2/3 vote. Yet a general unspecified tax requires only a majority vote.
- To approve bonds for a specific infrastructure project, cities and counties must launch campaigns to pass ballot initiatives by a 2/3 vote.
- The state has the authority to reallocate and place restrictions on local government revenues and expenditures (e.g., through transfer of property taxes and "maintenance of effort" requirements).

Progress on infrastructure funding is likely to require solutions to state and local government fiscal problems. Serious investigation is needed to find ways to assist local government in financing the enormously expensive cost of region-serving infrastructure. One suggestion is an infrastructure bank capitalized by municipal, county and special district bond pooling, as well as by state bond proceeds, federal and state grant funds, and Proposition 4 funds.

The State's failure to invest in infrastructure has increased housing prices, aggravated growth-related disputes and diminished California's economic potential. Over the last 15 years, the provision for infrastructure has become a significant factor in California's land-use controversies. As local governments have lost the ability to spread the costs of capital improvements throughout the community, much of those costs have been pushed onto new development—increasing housing prices and discouraging economic development. Other needs, such as freeway interchanges and regional parks, have gone unmet.

The State must invest in well-planned and efficient infrastructure to accommodate a growing population and capture economic opportunity. California must coordinate its investments. And it must better manage the demands on existing resources to stay economically competitive while preserving our quality of life. A coordinated state and regional infrastructure policy has the potential of reducing a major source of controversy, while helping to pioneer new solutions to perennial growth-related problems.

State And Local Government Fiscal Reform

Many of the means to economic prosperity in Southern California (e.g., education, training, infrastructure development) are related to state and local government fiscal prospects. In California, local government fiscal

prospects are tied directly to state budget decisions. This fiscal interrelationship, together with the limited range of general revenue sources at the local level, makes it highly likely that fundamental fiscal reform at the state and local level will be required in order to meet the capital investment requirements of the region's economy.

The paramount importance local government accords sales tax revenue places a premium on tax-generating retail business rather than on wealth-generating basic industry. Not only is retail trade generally a low skill, low wage form of activity, it is a non-basic industry; i.e., it redistributes money within the region but does nothing to bring in new wealth from outside beyond the initial investment.

Worse, competition among cities for the relatively limited number of incoming large-scale retail operations is intense, making it all the more difficult to generate the kind of cooperation and collaboration necessary for a regional economic strategy. New industrial development is also disadvantaged by development fees and exactions, as is much of the infrastructure needed to attract basic industry.

A pro-economy state tax structure is one that supports the evolution of regional economies toward higher value-added, increased productivity, and a rising standard of living. As outlined in a recent report by Joint Venture: Silicon Valley,²⁵ public and private-sector lead-

ers identified three essential characteristics of proper tax policies. They should be:

- **Responsive to Regional Needs.** A 21st century tax structure maximizes regions' ability to develop the kinds of services, infrastructure, and amenities their citizens and companies want and to deliver them as effectively as possible.
- **Pro-Investment by the Private and Public Sectors.** The current tax/fiscal structure has severed the link between property-based services and property-based revenues. As a result, retail facilities have become more valuable to communities from a fiscal perspective than facilities that house activities generating high-multiplier, higher-value jobs (e.g., high-tech manufacturing, R&D operations, headquarters operations, software development sites).
- **Able to Generate Predictable, Reliable Revenue Streams and Tax Policy.** A 21st century tax structure provides revenue predictability to local governments and a stable tax environment for businesses. Local governments can logically estimate revenue and expenses from year to year and at least five years out. For the private sector, revenue generation is linked to wealth-creation, minimizing the need for frequent changes in rates.

Underlying all three principles is the knowledge that California's tax and fiscal structure must be competitive in rates and burden and in the value taxpaying citizens and companies receive from their tax contributions in other states and regions.

Local Buy-In to A Regional Economic Strategy

It is the responsibility of the Southern California Association of Governments (SCAG) and other regional organizations, in cooperation with regional businesses, to achieve buy-in at the sub-regional, city, and county levels to the need for expanding the region's economic base. City management and, most importantly, local elected officials must become active partners in the regional economic strategy for at least two reasons:

1. They have the land-use authority and the power to dispense development incentives.
2. Only through city-level understanding and cooperation will the region be able to prevent narrow fiscal/jurisdictional interests from obstructing a regional approach to the economy. Industrial clusters and economic foundations are inherently multi-jurisdictional: This message must reach below the county and even sub-regional levels.

²⁵ Silicon Valley White Paper for California Constitution Revision Commission, by the Council on Tax Fiscal Policy Joint Venture: Silicon Valley Network, 1997.

Regional Business Leadership

The original Economy Chapter of the RCPG identified the need for regional cooperation through development of the Regional Economic Strategies Consortium (RESC). Although the RESC met for a number of years and information flow was enhanced as a result of its activities, it never received the support from the private sector necessary to sustain meaningful initiatives. This report once again recommends the formation of a regional initiative to bring the business community as a whole to bear on important issues.

The last few years has seen the resurgence or initiation of a number of sub-regional business or public/private organizations. Examples are:

- San Gabriel Valley Economic Partnership
- Valley Industry and Commerce Association
- South Bay Economic Development Partnership
- Inland Empire Economic Partnership
- Orange County Business Council
- Economic Alliance of the San Fernando Valley
- Greater Antelope Valley Economic Alliance
- Los Angeles Regional Technology Alliance

These groups and others are providing strong leadership on sub-regional specific issues. Add to this the hundreds of Chambers of Commerce, neighborhood business groups and industry associations and the region reflects an organizational web that is difficult to understand let alone mobilize in an effective and consistent manner.

The challenge is for business leaders from throughout the region, in partnership with those existing organizations, to come together and forge meaningful relationships that can address issues critical to the region's future. A crucial part of this process, which is often downplayed, is to ensure that the right players are invited to the table to begin with.

This second, revised version of the Economy Chapter therefore recommends that the RESC be re-energized with true private sector leadership and local organization partnership. SCAG would work in partnership with such a group to research critical issues, provide information, and outline key steps to be taken in a collaborative manner.



4. Strategies for Investment in “Communities in Need”

Attracting Business Investment to “Communities in Need”

“Communities in Need” are identified in the Human Resources and Services Chapter of the RCPG as those communities that possess threshold levels of certain key social indicator characteristics. These indicators are:

- Population below poverty level;
- High school dropouts—persons 25 years and over;
- English spoken “not well or not at all”—persons 5 years and over; and
- High unemployment rate.

Census tracts in the highest quartile of any three of these four indicators were identified in the Human Resources and Services Chapter as “communities in need” in each SCAG county.

In Harvard Business School Professor Michael Porter's report on rebuilding communities in

need²⁶ he posits that jobs, investment, and businesses in our inner cities will materialize only as they have elsewhere—as the result of private, for-profit initiatives and investment based on economic self-interest and true competitive advantage. If the aim is to create a healthy, sustainable economic base in economically depressed communities, with the employment and wealth that comes with such a base, then the task is to identify the unique existing and potential competitive advantages of these communities that will sustain profitable companies, capable not only of serving the local community but also of “exporting” beyond it. The belief, therefore, is that businesses located within communities in need must be genuinely profitable and capable of competing on a regional, national, and even international scale, lest they run the risk of being outside the economic mainstream.

To guide communities-in-need economic development, a new model must draw its energy from the urban core's untapped economic and entrepreneurial potential. Working off of inherent strengths, the strategy should rest on the proposition that inner cities provide unique potential competitive advantages that companies can leverage in order to turn a profit. The focus, therefore, should be on identifying those competitive advantages and on encouraging the formation and growth of companies that can exploit them – in essence

overcoming the “friction of information” that exist about the opportunities for the inner city. If companies are to put down roots in the inner city, they must be motivated by profits. Key inner-city advantages identified by Porter include:

1. Strategic Location. Communities in need often occupy economically valuable locations. They sit near congested high-rent business centers and astride transportation and communications nodes. Inner-city locations thus offer potential advantages for businesses that benefit from proximity to downtown business districts, logistical infrastructure, entertainment and tourist destinations, and concentrations of companies. Strategic location creates opportunities for relocating warehousing, data processing, food preparation, and other activities that benefit from downtown proximity away from more expensive downtown headquarters (or other company locations). For example, in Los Angeles many industry clusters such as toy and electronics importing and distribution, are dependent up transportation linkages and warehouse facilities. Such businesses have emerged and remained in the inner city despite government policies that often erode the area's locational value. That persistence suggests that the potential to expand the base of location-sensitive businesses in inner cities is significant.

²⁶ Michael Porter, “The Rise of the Urban Entrepreneur,” *Inc. Magazine, State of Small Business, 1995*, p. 105

2. Local Market Demand. The second potential competitive advantage of the inner city lies in the unmet demands of its own population. Even though average incomes are relatively low in inner cities, high population density creates substantial purchasing power and a large market. These advantages are not well understood, nor are they well documented. Economist David Friedman in his 1994 study for RLA found that the “neglected regions” of Los Angeles County—those with 20 percent or higher poverty rates—showed a remarkable economic base of more than 15,000 companies employing 350,000 people with sales in excess of \$4 billion. Such figures are not easy to assemble. If the federal and state statistical agencies could make them available in a convenient form to business, they might well alter firms’ decisions as to whether or not to invest in the inner city.

3. Integration with Regional Clusters. A third potential competitive advantage of the inner city is a company’s ability to leverage access to nearby regional business clusters. The inner city’s proximity to regional clusters also offers employment opportunities to appropriately trained residents. Those jobs are usually far more practical and accessible than jobs in distant suburbs. With training and other work-force development programs tailored to cluster needs, both the regional firms and the inner city benefit.

4. Human Resources. The fourth potential competitive advantage of the inner city lies in its human resources. Inner-city workers are often more motivated and loyal in businesses that suffer high turnover. For instance, Porter identified a bakery in the heart of Boston’s inner city that supplies decorated cakes to supermarkets. It attracts and retains residents from the area at \$7 to \$8 an hour (plus contributions to pensions and health insurance), and its labor pool is one factor that has allowed the company to thrive. Those entry-level, hourly jobs represent a starting point in building a sustainable inner-city economy. Furthermore, research reveals a substantial capacity for entrepreneurship in inner cities.

The competitive-advantage model proposes a new approach to creating a sustainable economic base in distressed urban communities. Agreeing to such a model and implementing it will not be easy. The private sector, government, inner-city residents, and the general public all hold their own views and prejudices about the inner city and its problems. Those views will be slow to change. People who have devoted years to social causes and who view profit and business in general with suspicion will be uncomfortable seeing the inner city in economic rather than in social terms. Elected officials may resist changing legislation and confronting angry and frightened constituents. And government entities may be reluctant to

cede power and control accumulated through past programs.

Porter concludes that the real leaders of the economic revival of inner cities will come from outside the traditional community-service circles. Those leaders—businesspeople, entrepreneurs, and investors—are just emerging. They will need the support of community activists and organizations, social-services providers, and elected and non-elected government officials—all of whom have an important, though supporting, role to play in revitalizing inner cities. Inner-city regions cannot wait any longer. The ongoing damage to inner-city residents and to the whole of society cannot be tolerated.

Access to Capital

Poor access to debt and equity capital is a formidable barrier to entrepreneurship and company growth in inner-city areas. Banks and other sources of debt financing are often perceived as unfairly withholding capital because of bias, redlining, or poor understanding of inner-city companies. While those problems must be addressed, they are exacerbated by two other conditions. First, relatively few inner-city businesses meet investors’ and lenders’ underwriting standards. Capital will flow to inner-city companies once viable, competitive businesses are in place. Second, banks find small-business lending only marginally

profitable because transaction costs are high relative to amounts lent.

The federal government has made several efforts to address the dearth of debt capital available to inner-city companies. The Community Reinvestment Act (CRA), intended to overcome bias in lending, has forced banks to pay more attention to inner-city areas. Additionally, the Specialized Small Business Investment Company (SSBIC) program of the U.S. Small Business Administration targets smaller enterprises for equity investments. But, equity capital is all but absent in most inner city areas. Furthermore, entrepreneurs usually lack personal or family savings and networks of individuals to draw on for capital, and institutional equity investors have historically ignored inner-city business opportunities.

Consider the problems inner-city companies have in gaining access to capital. Banks must see inner city lending as a profitable proposition, or they will never have the incentives and enthusiasm to develop it aggressively. Conventional lenders say the reason they do not find inner-city commercial lending profitable is not because of high default rates, as is commonly thought, but because of the high transaction costs associated with inner-city loans. Government should address those costs head-on by relaxing paperwork requirements and by providing direct incentives, such as giv-

ing banks a transaction fee rather than a loan guarantee for closing a qualifying inner-city loan.

The most important way to bring equity investment into the inner city is to engage and encourage the private sector. Resources now going to government or quasi-public finance agencies would be better channeled through private financial institutions or directed at recapitalizing minority banks. Some minority-owned banks, with a superior knowledge of the inner city market, could gain a competitive advantage by developing business-lending expertise in inner city areas.

Relatively poor access to capital for urban businesses, lack of integration into the regional economy, and resulting competition from ex-urban areas have often deterred large-scale private sector investment. But today, a strong and sustained growth trend in the national economy has intersected with a sharp downturn in urban crime, better community policing, improvements in public housing, and other positive trends in urban centers. The potential result is a window of opportunity for inner city economic development in which private investment, urban businesses and local residents can flourish.

Business Improvement Districts

One of the more recent innovations being utilized as a tool for downtown revitalization are Business Improvement Districts (BIDs)—self-taxing organizations of businesses usually in downtown areas—which provide cleaner, safer and more attractive environments. A BID is a tool provided for by recent state legislation. It is a voluntary self-help mechanism for local business communities. The BID facilitates the pooling of funds for property improving streetscape, additional parking, increased maintenance, heightened security, local promotion, business attraction, special events, and virtually anything else the local board decides will benefit the business district. Merchants and property owners fund, structure and manage the BID, with the support of the city council.

As local budgets have tightened since the 1980s and downtown areas have faced competition from suburban malls, BIDs have come into their own as a way to keep aging neighborhoods economically viable. For example, one of the largest and most successful is New York's Grand Central Partnership which:

- Has a budget of \$13 million and has sold \$32 million in bonds for capital improvements.

- Operates a 42-member security police force, which has led to a sharp decline in crime.
- Replaces broken streetlights and missing street signs, cleans and discourages graffiti, and empties wastebaskets.
- Provides amenities such as planters with flowers, and runs taxi stands.

There are over 200 BIDs in the State of California alone. There are two different California statutes that provide for the establishment of BIDs. One focuses on assessing

business licenses within the district (including landowners who lease property), and the second focuses on assessing property owners alone. The programs can also be used in combination. The local board makes all determinations and is charged with establishing a reasonable assessment formula. A BID can be formed in virtually any commercial or industrial setting.

In addition to BID's located in Long Beach, Santa Monica and Pasadena, Los Angeles currently has three BIDs in place: Miracle on Broadway (which includes all businesses on Broadway), Westwood Village (which includes businesses in the village and property along Wilshire Blvd.), and the Downtown Los Angeles Property Owners Association, DLAPOA (which includes 56 blocks of the Garment District).

Mission Statement

Leadership

Vision

Progress

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Leadership, vision and progress which promote economic growth, personal well-being, and livable communities for all Southern Californians.

The Association will accomplish this Mission by:

- Developing long-range regional plans and strategies that provide for efficient movement of people, goods and information; enhance economic growth and international trade; and improve the environment and quality of life.
- Providing quality information services and analysis for the region.
- Using an inclusive decision-making process that resolves conflicts and encourages trust.
- Creating an educational and work environment that cultivates creativity, initiative, and opportunity.

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